2011
ANNUAL REPORT

OPERATING RESULTS ($000)	**2011**	2010
Operating revenue	**$1,548,757**	$1,483,768
EBITDA (1)	**242,249**	250,333
Operating profit	**189,673**	186,193
Net income	**218,141**	210,729
Cash from operating activities	**114,955**	157,654
EBITDA – Percentage of revenue	**15.6%**	16.9%
Operating profit – percentage of revenue	**12.2%**	12.5%
Cash from operating activities – percentage of average shareholders' equity	**17.8%**	31.2%
PER CLASS A AND CLASS B SHARES		
Net income	**$2.74**	$2.65
Dividends	**$0.47**	$0.37
Price range (high/low)	**$15.25/7.55**	$13.23/5.92
FINANCIAL POSITION ($000)		
Long-term debt	**$196,191**	$404,586
Equity	**$706,264**	$584,560

The Annual Meeting of shareholders will be held Wednesday, May 9, 2012 at Le Méridien King Edward Hotel, 37 King Street East, Toronto beginning at 10 a.m. It will also be webcast live on the Internet.

OPERATING REVENUE ($MILLIONS)(2)

Year	Value
07	1,547
08	1,534
09	1,451
10	1,484
11	1,548

OPERATING PROFIT ($MILLIONS) (2)

Year	Value
07	163
08	118
09	95
10	186
11	190

INCOME (LOSS) FROM CONTINUING OPERATIONS PER SHARE (2)

Year	Value
07	1.29
08	(2.01)
09	0.45
10	2.65
11	2.74

EBITDA ($MILLIONS) (1) (2)

Year	Value
07	225
08	213
09	192
10	250
11	242

(1) Consolidated operating profit, as presented on the consolidated statements of income, which is before charges for interest and taxes adjusted for depreciation and amortization of intangible assets. It also excludes restructuring and other charges. Please see "Non-IFRS Measures" on page 7.

(2) 2010 is restated to an IFRS basis. 2007-2009 are based on Canadian GAAP and are not restated to IFRS.

This annual report contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario). We caution readers not to place undue reliance on these statements as a number of factors could cause our results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. Additional information about these factors is contained on page 7. under the heading "Forward-Looking Statements".

MESSAGE FROM THE CHAIR

John Honderich
Chair, Board of Directors

In spite of strong digital and economic headwinds, Torstar broke through to register another stellar year in 2011.

While overall earnings (EBITDA) were off slightly from previous year, the company made significant investments across the board that we believe have strengthened both our financial position and our ability to compete in the future. With a very solid balance sheet and limited long-term debt, the Board of Directors approved more than $100 million in new investments. They include increasing our ownership in the Metro newspaper operations (Free Daily News Group) to 90 per cent and creating new Metro papers in Winnipeg and London, establishing new community papers in Brantford, North Bay, Kitchener and London, purchasing the Smith Falls-based Performance Printing Limited, creating a new entertainment weekly in Toronto called The Grid, and purchasing approximately 25 per cent of Blue Ant Media Inc, a new independent media company.

When considered together, these investments constitute a significant expansion of our footprint, particularly in Ontario, our primary area of operation. Also, with our cross-country network of Metro newspapers, Torstar now has control of a national platform that positions us well for the future.

On the digital side, Harlequin has been undergoing a dramatic transformation as sales shifted to digital books, which leapfrogged ahead at a strong rate. The team at Harlequin has done an outstanding job managing this transformation. Indeed, Harlequin registered its best year ever, leaving aside the impact of foreign exchange. On the newspaper side, investment in new digital opportunities continues apace with digital media revenues now accounting for more than 11 per cent of total media revenues, an increase of 22.8 per cent year over year.

One of Torstar's greatest strengths is the quality of the members of our executive team who bring a superb mix of experience, dedication and commitment to the company. President and Chief Executive Officer David Holland and Chief Financial Officer and Executive Vice-President Lorenzo DeMarchi have expertly steered Torstar through this difficult year, continuing their pattern of innovative leadership and collaboration. Harlequin Publisher and Chief Executive Officer Donna Hayes continues to excel at the highest level, reaffirming her position as one of the world's great book publishers. John Cruickshank, Publisher of the Toronto Star and President of the Star Media Group, forged ahead with his dynamic transformation at the Toronto Star, leading it to new heights of editorial excellence. Ian Oliver, President of Metroland Media Group, had an outstanding year as the principal architect of his group enlarging its Ontario footprint. Finally, Torstar Digital President Tomer Strolight continued to play a critical role at the core of Torstar's digital strategy, moving forward with innovative thinking.

As usual, a huge part of Torstar's success in 2011 was the quality of performance and leadership exhibited throughout the company. In tough times, individual employees are often called upon to excel and 2011 was no exception. Time and again, they were more than up to the challenge. In an era of economic challenge, it was necessary to take steps to restructure our businesses that inevitably led to some painful decisions on staffing. We salute those who have departed, knowing their contributions will not be forgotten.

2011 also saw the return of Neil Clark, former Senior Vice-President Strategic Planning at the Toronto Star, to the Torstar Board of Directors. Mr. Clark has previously served on the Board. Throughout the year, the company has been extremely well served by the Board and I would like to express my personal appreciation for their wisdom, sagacity and good humour.

TO OUR SHAREHOLDERS

David Holland
President and Chief Executive Officer

Torstar delivered a very solid performance in 2011, with good operating results for the company as a whole, major accomplishments in our book publishing and Canadian Media operations that contributed directly to strategic progress, and a significant strengthening of the company's financial position.

OPERATING RESULTS

Despite the challenging economic environment, 2011 proved to be a good year for Torstar. We believe the strategic moves we made both in investing in organic growth initiatives within our business and in acquisitions increases the diversity of our revenue base and will serve Torstar well as we move forward.

Torstar earned EBITDA of $242 million, a slight decrease from the $250 million earned in 2010. The decline included $6 million from the negative impact of foreign exchange due to the strengthening of the Canadian dollar. Total revenues were $1.55 billion, up from $1.48 billion the prior year. The growth in total revenue was driven by media segment revenues, which were up $74 million in 2011. However, EBITDA of $172 million in the media segment was down $5 million. Harlequin EBITDA was $86 million, down $2 million from prior year including the decline of $6 million from the impact of foreign exchange which was offset in part by growth in the underlying operating results. Significantly, Harlequin posted its fifth consecutive year of profit growth, adjusting for the impact of the strengthening Canadian dollar during that period.

One of the key reasons for our overall financial strength has been our focus on debt reduction. We closed 2011 and move forward into 2012 in a strong financial position, with net borrowings of $153 million. That was down $215 million from $368 million at December 31, 2010. The reduction is the result of the receipt of the remainder of Torstar's cash proceeds from the sale of its 20-per-cent share in CTVglobemedia Inc. and management's ongoing focus on the generation of free cash flow.

Harlequin enjoyed another noteworthy year in 2011, delivering record high earnings adjusted for the effects of foreign exchange. Harlequin's management team continued to adapt very successfully to the shift to digital reading, with total revenue reaching $459 million. Excluding the impact of foreign exchange and acquisitions, the revenue was down slightly from 2010 with digital revenue growth not offsetting declines in print revenue in the overseas markets that were in part affected by fragile economic conditions.

Harlequin continues to evolve its business successfully, focusing on providing great reading entertainment to women around the world in an increasingly digital environment. In 2011, Harlequin renegotiated contracts with all top authors, enjoyed a record-breaking year for bestsellers, with seven Number 1 bestsellers in the United States, further developed its non-fiction and teen programs and digitized more than 5,200 new and older titles. In 2011, Harlequin.com received an average of approximately 6.5 million page views a month and an average of about 301,000 unique visitors a month, consistent with 2010 levels. An additional 1.3 million page views a month were received on Harlequin's digital book store, similar to 2010 activity.

Harlequin, a world-class book publisher, continues to be an outstanding Canadian success story.

In the Canadian Media division in 2011, we remained committed to striving for excellence in delivering the many valuable services we provide to our customers while at the same time investing in and working towards achieving the necessary transformation to the business models of the future. This required an equal emphasis on growing the revenue base and a relentless focus on efficiency and the cost of delivering services.

Our Canadian Media division is comprised of Metroland Media Group, Star Media Group and Torstar Digital. Each of these operations has unique strengths and capabilities. Across these operations, we have powerful brands, access to significant print and digital audiences, a content development capability, a distribution capability, promotional power and very committed, talented and passionate employees. The Media division had revenues of $1.1 billion in the year.

Metroland Media Group is one of Canada's leading community media companies. Over the years, it has evolved into a diversified business, with a core platform of three daily and more than 110 community newspapers, and operations in flyer distribution, magazines, specialty publications, consumer shows, commercial printing, teleshopping, product sales, directories and numerous digital operations.

Considering the economic environment in Ontario, Metroland enjoyed a solid year in 2011, with revenues up $41 million over the prior year to $582 million. Revenue growth included $45 million from higher product sales in the TMGTV operations and digital revenue growth of $11 million. Offsetting these increases were lower print revenues.

In October, Metroland acquired Performance Printing Limited of Smiths Falls, Ontario, for $22.5 million. Performance Printing is a newspaper publisher and flyer distributor in several eastern Ontario communities, including Kingston, Belleville, Brockville, Smiths Falls and Ottawa, as well as a commercial printer with operations in Smiths Falls. The acquisition allows Metroland to extend its community newspaper and flyer distribution services to new communities in eastern Ontario and also supports Metroland's extension of its growing suite of digital offerings.

Star Media Group, which includes the Toronto Star, Metro, Sing Tao Daily, The Grid and many of our digital properties, performed well in 2011 considering the challenging advertising environment that continued throughout the year, benefiting from restructuring and cost controls which helped to overcome lower-than-expected advertising results. Revenue grew by $33 million to $507 million, compared to $474 million in 2010. EBITDA was $70 million in 2011, down $2 million from $72 million in 2010. Digital revenues were up $8 million, excluding acquisitions.

At the Toronto Star, our flagship newspaper, we continued to face advertising revenue challenges. Toronto Star print advertising revenues were down 6.4% in 2011, with declines across most categories. Fortunately, strong circulation revenue at the Toronto Star, which was up 1.7% in 2011 from a combination of price increases and ancillary products offered to our subscribers, mitigated in part the advertising revenue decline.

Beyond the revenue picture, the Toronto Star and thestar.com enjoyed a good year on several fronts, including maintaining print readership, growing digital readership and expanding the audience of the Toronto Star throughout the Greater Toronto Area. Importantly, the voice of the Toronto Star remains very strong.

Star Media Group made progress in further diversifying its revenue base in 2011. In October, Torstar announced it had increased its interest in the English-language Metro newspaper operations ("Metro") jointly owned in Canada with Metro International S.A. to 90%. Metro's operations are part of Star Media Group. The aggregate consideration was $51.5 million. Metro publishes free daily newspapers under the Metro trade mark in Toronto, Vancouver, Ottawa, Calgary, Edmonton, Winnipeg and London, and pursuant to a joint venture with Transcontinental Media G.P. in Halifax. We have been very happy with the evolution of the Metro newspaper operation over the past decade and were pleased to increase our interest to 90% in this growing national franchise.

At Sing Tao, the Chinese language newspaper in which we hold an effective 50-per-cent interest, revenues were also up in the year with growth in both newspapers and magazine revenues.

We are also thrilled that our newspapers, websites and journalists continued to be recognized for their outstanding editorial efforts throughout the year.

In 2011, the Toronto Star won three National Newspaper Awards for reporting and photography and captured the 2011 Canadian Journalism Foundation's Excellence in Journalism Award in the large or national category. It was the first time in the history of the award that a news organization had won the top prize for two consecutive years. Also, Metroland newspapers earned 103 awards from the Ontario Community Newspaper Association Better Newspaper Awards and 91 awards from the Suburban Newspaper of America (SNA) Editorial Contest. Metroland led all companies with an impressive 75 awards in the SNA Advertising and Promotions Contest. The Grid, a weekly publication that was launched in the Toronto area in May, was named one of the five best designed newspapers in the world by the Society for News Design, an international non-profit design organization.

Torstar Digital showed positive revenue growth in 2011. Among its portfolio of digital businesses, Workopolis, Canada's foremost career website which is owned jointly by Torstar and Square Victoria Digital Properties (a subsidiary of Power Corporation), enjoyed double-digit revenue and EBITDA growth in 2011 and continued to expand its leading audience position. In 2011, Olive Media, a leading online advertising solutions provider, continued to grow revenues. Also, WagJag, a digital marketing platform that features deep discounts to Canadians on local products and services, sold 2.2 million vouchers, a remarkable achievement given that it has only been in operation within Torstar since 2010. This initiative in group buying and the success enjoyed to date results from the powerful collaboration of Torstar Digital and Metroland assisted by the promotional support of the Toronto Star.

The goal of continuing to diversify our media asset base also benefitted from the December, 2011 acquisition of an approximate 25-per-cent interest in Blue Ant Media Inc, a newly established independent media company led by media veteran, Michael MacMillan. Torstar's investment in Blue Ant Media will occur in two phases and will be $22.7 million. We view the Blue Ant Media investment as strategic and see the potential in Michael MacMillan's vision for a new kind of media company in Canada. We are very pleased to be involved.

Torstar also has a minority investment in Black Press, a company very well led by David Black, which publishes more than 150 newspapers, including weeklies, dailies and shoppers, in Canada and the U.S.

LOOKING FORWARD

As in past years, Torstar's businesses remain highly dependent on the economy. This is especially true as it relates to advertising. The economic recovery remains modest and fragile within Canada and globally.

We are confident we can meet the challenges that will confront us in 2012. We entered the year with a stronger Canadian Media operations platform, given the investments made in 2011. And Harlequin continues to adapt successfully to the shift to digital consumption of reading entertainment.

This is an important period in Torstar's evolution. Disruption is everywhere, but out of disruption emerges opportunities. To compete effectively in an increasingly competitive global environment, we must play to our strengths and adapt and evolve as we have in the past.

A great strength for Torstar is the diversity of our operations, which has served us well and translates into more than 100 respected brands, which together create a uniquely diversified platform from which to build for the future, from book publishing to daily newspapers, community publications, digital, magazines, consumer shows, teleshopping and video and directories.

In the midst of this era of rapid change, our goal at Torstar is to be a progressive media organization that takes advantage both of the breadth of the assets at our disposal and the depth and quality of talent throughout our many businesses.

At Torstar, being a "progressive media company" means being an organization that confronts reality, builds on its strengths, addresses its weaknesses and embraces the future, anticipating opportunity. It means being a company that can be patient when needed, but will act with speed when desirable. It means being a company that encourages innovation in all aspects of its operations and is disciplined and committed in following through to make the necessary investments to foster that innovation. It means being a company that is focused on building value from within, not one that relies solely on acquisitions to achieve growth over time.

Torstar is that kind of progressive media company.

I feel confident in our future because of the tremendous strengths we have to draw upon, including our enduring brands in every area of our business — brands that have earned credibility and trust, including having one of the world's leading book publishers in Harlequin, a business that has consistently delivered for Torstar and its shareholders for more than 30 years; Canada's leading daily newspaper and news-producing team at the Toronto Star and thestar.com that is committed to serving audiences across all platforms; Metroland Media, in which we have the country's best, most-innovative, solutions-oriented community newspaper organization; and a large and talented group of digital business leaders across all our divisions who have developed the capability and infrastructure required to build successful digital businesses.

In short, our goal is to adapt, compete and build value in Torstar over the long term. We will strive to do this by embracing our strengths as an organization and seizing the opportunities ahead created by a media landscape that will continue to shift.

OUR GREATEST STRENGTH – PEOPLE

Of course, getting to a brighter future will depend heavily on the quality of our people at all levels of the organization. There has never been a time when the quality of your employees mattered more. I am convinced that at Torstar we have some of the top people in their chosen fields anywhere in Canada and indeed, in some cases, anywhere in the world.

Guiding our talented and committed employees are outstanding management teams led by terrific executives.

At Harlequin, Donna Hayes continues to build on her great track record and show why she is one of the world's top book publishing executives, leading Harlequin so effectively during this critical transition into a more digital book publishing world.

At Metroland Media Group, Ian Oliver is an experienced leader with an exceptional record of innovation and growth in community-based media. His successful completion of the acquisition in 2011 of Performance Printing in eastern Ontario, which greatly expanded Metroland's presence in that part of the province, is a prime example of his vision and ability to seize opportunities when they arise.

John Cruickshank, at Star Media Group, continues to providing outstanding leadership as he successfully achieves the necessary transformation within the largest daily newspaper in Canada while at the same time diversifying the asset base of the group. This diversity was enhanced with the successful move to increase our ownership interest in the Metro chain of free daily newspapers.

Once again, Tomer Strolight at Torstar Digital has demonstrated his ability, along with his team, to be at the forefront of innovative and effective solutions for our customers. Most recently, in close collaboration with Metroland, we have established a good position in group buying through our Wagjag offering.

At Torstar corporate, we are privileged to have an experienced and talented team whose members continue to make important contributions to the company. These include Lorenzo DeMarchi, our Executive Vice-President and Chief Financial Officer; Marie Beyette, our Senior Vice-President, General Counsel and Corporate Secretary; Patricia Hewitt, our Senior Vice-President Human Resources; Gail Martin, our Senior Vice-President Finance; Pam Laycock, our Senior Vice-President Corporate Strategy; Todd Smith, Treasurer and many others. I thank them for their support.

I would also like to thank John Honderich, our Chair, and all the members of the Board of Directors for their advice and guidance and support. I deeply appreciate their wise counsel.

When I look forward – seeing the quality of our 7,000 employees, the diversity of our businesses, the wisdom and courage of our executives, our ability to act quickly when needed and be patient when advantageous, and our financial foundation – I do so with great confidence in our continued success in the years ahead.

FINANCIAL TABLE OF CONTENTS

Management's Discussion & Analysis 7

Management's Statement of Responsibility 48

Independent Auditors' Report to Shareholders 49

Consolidated Financial Statements 50

Corporate Information 119

For the year ended December 31, 2011

Dated: February 28, 2012

The following management's discussion and analysis ("MD&A") of Torstar Corporation's ("Torstar" or "the Company") operations and financial position is supplementary to, and should be read in conjunction with the audited consolidated financial statements of Torstar Corporation for the year ended December 31, 2011.

Torstar reports its financial results under International Financial Reporting Standards ("IFRS") in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding for the applicable period.

Torstar's 2010 financial results included in this MD&A have been restated to an IFRS basis.

Non-IFRS measures

In addition to operating profit, as presented in the consolidated statement of income, management uses EBITDA and operating earnings as measures to assess the consolidated performance and the performance of the reporting units and business segments.

EBITDA (earnings before interest, taxes, depreciation and amortization) is a measure that is also used by many of Torstar's shareholders, creditors, other stakeholders and analysts as a proxy for the amount of cash generated by Torstar's operations or by a reporting unit or business segment. EBITDA is not the actual cash provided by operating activities and is not a recognized measure of financial performance under IFRS. Torstar calculates EBITDA as operating revenue less salaries and benefits and other operating costs as presented on the consolidated statement of income. EBITDA excludes restructuring and other charges. Torstar's method of calculating EBITDA may differ from other companies and accordingly may not be comparable to measures used by other companies.

Operating earnings is used by management to represent the results of ongoing operations and is not a recognized measure of financial performance under IFRS. Torstar calculates operating earnings as operating revenue less other operating costs, salaries and benefits and amortization and depreciation. Operating earnings excludes restructuring and other charges. Torstar's method of calculating operating earnings may differ from other companies and accordingly may not be comparable to measures used by other companies.

Forward-looking statements

Certain statements in this MD&A and in the Company's oral and written public communications may constitute forward-looking statements that reflect management's expectations regarding the Company's future growth, financial performance and business prospects and opportunities as of the date of this MD&A. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate", "believe", "plan", "forecast", "expect", "intend", "would", "could", "if", "may" and similar expressions. All such statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. These statements reflect current expectations of management regarding future events and operating performance, and speak only as of the date of this MD&A. In addition, forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

By their very nature, forward-looking statements require management to make assumptions and are subject to inherent risks and uncertainties. There is a significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that management's assumptions may not be accurate and that actual results, performance or achievements may differ significantly from such predictions, forecasts, conclusions or projections expressed or implied by such forward-looking statements. We caution readers not to place undue reliance on the forward-looking statements in this MD&A as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, outlooks, expectations, goals, estimates or intentions expressed in the forward-looking statements.

These factors include, but are not limited to:

- the Company's ability to operate in highly competitive industries;
- the Company's ability to compete with other forms of media and media platforms;
- general economic conditions in the principal markets in which the Company operates;
- the Company's ability to attract and retain advertisers;
- the Company's ability to attract and retain readers;
- the Company's ability to retain and grow its digital audience and profitably develop its digital businesses;
- the trend towards digital books and the Company's ability to distribute its books through the changing distribution landscape;
- the Company's ability to accurately estimate the rate of book returns through the wholesale and retail channels;
- the popularity of its authors and its ability to retain popular authors;

- labour disruptions;
- newsprint costs;
- the Company's ability to reduce costs;
- foreign exchange fluctuations;
- credit risk;
- restrictions imposed by existing credit facilities, debt financing and availability of capital;
- pension fund obligations;
- results of impairment tests;
- reliance on its printing operations;
- reliance on technology and information systems;
- risks related to business development;
- interest rates;
- availability of insurance;
- litigation;
- environmental, privacy, communications and e-commerce laws and other laws and regulations applicable generally to our businesses;
- dependence on key personnel;
- loss of reputation;
- product liability;
- intellectual property rights;
- control of the Company by the Voting Trust; and
- uncertainties associated with critical accounting estimates.

We caution that the foregoing list is not exhaustive of all possible factors, as other factors could adversely affect our results. In addition, a number of assumptions, including those assumptions specifically identified throughout this MD&A, were applied in making the forward-looking statements set forth in this MD&A which the Company believes are reasonable as of the date of this MD&A. Some of the key assumptions include, without limitation, assumptions regarding the performance of the North American economy; tax laws in the countries in which we operate; continued availability of printing operations; continued availability of financing on appropriate terms; exchange rates; market competition; rates of return and discount rates relating to pension expense and pension plan obligations; royalty rates, expected future revenues, expected future cash flows and discount rates relating to valuation of goodwill and intangible assets; and successful development of new products. There is a risk that some or all of these assumptions may prove to be incorrect.

When relying on our forward-looking statements to make decisions with respect to the Company and its securities, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The Company does not intend, and disclaims any obligation, to update any forward-looking statements, whether written or oral, or whether as a result of new information or otherwise, except as may be required by law.

TABLE OF CONTENTS

OVERVIEW

OPERATING RESULTS – YEAR ENDED DECEMBER 31, 2011

OPERATING RESULTS – THREE MONTHS ENDED DECEMBER 31, 2011

OUTLOOK

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL INSTRUMENTS

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

FUTURE CHANGES IN ACCOUNTING POLICIES

RISKS AND UNCERTAINTIES

ANNUAL INFORMATION – 3 YEAR SUMMARY

SUMMARY OF QUARTERLY RESULTS

REVISED QUARTERLY RESULTS

CONTROLS AND PROCEDURES

OTHER

OVERVIEW

Torstar Corporation is a broadly based media and book publishing company listed on the Toronto Stock Exchange (TS.B). Torstar reports its operations in two segments: Media and Book Publishing. The Media Segment publishes over 100 newspapers including the Toronto Star, Canada's largest daily newspaper, The Mississauga News, Oshawa This Week, The Hamilton Spectator and the Canadian, English-language Metro newspapers. It also includes leading digital properties such as thestar.com, toronto.com, InsuranceHotline.com, Wheels.ca, flyerland.ca, goldbook.ca, Workopolis, Olive Media, eyeReturn Marketing and wagjag.com. The Book Publishing Segment represents Harlequin, a leading global publisher of books for women. Torstar also has investments in Black Press Limited ("Black Press"), Blue Ant Media Inc. ("Blue Ant") and Canadian Press Enterprises Inc. ("Canadian Press"). Until April 1, 2011, Torstar also had an investment in CTV Inc. ("CTV").

Media Segment

The Media Segment includes Star Media Group ("SMG") and Metroland Media Group ("MMG").

Star Media Group includes the Toronto Star, Canada's largest daily newspaper which is read in print and online (thestar.com) by more than 3 million readers every week. Online, thestar.com is one of the most-visited newspaper websites in Canada. Star Media Group also includes Metro, a free daily newspaper that is published in Toronto, Vancouver, Ottawa, Calgary, Edmonton, London and Winnipeg and, pursuant to a joint venture with Transcontinental Media G.P., in Halifax. The Star Media Group has one press centre which primarily supports the Toronto Star's printing needs but is also engaged in commercial printing.

Star Media Group's other operations include Torstar Syndication Services (which provides editorial content to newspapers and other media), Wheels.ca, InsuranceHotline.com, toronto.com (an online destination for events and attractions in the Greater Toronto Area), Olive Media (a leader in online advertising sales in Canada with the ability to reach over 17 million unique Canadian visitors monthly on a portfolio of top-tier sites including thestar.com, nytimes.com, CNET.com, cyberpresse.ca, and auFeminin.ca), eyeReturn Marketing (a leading provider of online marketing services), wagjag.com (a daily deal website) and travelalerts.ca (an online publisher of travel deals).

In addition to the above operations, Star Media Group also includes Torstar's proportionate interests in Sing Tao Daily, Workopolis and Tuango.ca. Sing Tao Daily publishes a Chinese language newspaper in Canada with editions in Toronto, Vancouver and Calgary. It is also involved in printing, outdoor advertising, Chinese language telephone directories, radio and weekly magazine publishing. Torstar jointly owns the Canadian operations of Sing Tao Daily with Sing Tao Holdings Limited. Torstar owns 50% of Workopolis, Canada's leading provider of internet recruitment and job search solutions. Square Victoria Digital Properties (a subsidiary of Power Corporation) is Torstar's partner in Workopolis. Torstar owns 50% of Tuango.ca, a Quebec-based daily deal website.

Metroland Media Group publishes in print and online more than 100 weekly community newspapers including The Mississauga News and Oshawa This Week and three daily newspapers – The Hamilton Spectator, the Waterloo Region Record and the Guelph Mercury. Its online properties include flyerland.ca, HomeFinder.ca, gottarent.com, save.ca and a 50% interest in LeaseBusters.com. Metroland Media Group also participates in Wheels.ca, InsuranceHotline.com and wagjag.com. Metroland Media Group publishes the Gold Book print and online directories, a number of specialty publications and operates several consumer shows throughout Ontario. Metroland Media Group also operates Torstar Media Group Television ("TMGTV" - a teleshopping channel and a product sourcing and distribution business). Metroland Media Group has nine web press facilities which print the Metroland newspapers but also engage in commercial printing.

Book Publishing Segment

The Book Publishing Segment reports the results of Harlequin, a leading global publisher of books for women. Harlequin publishes books around the world in a variety of genres and formats, including digital. Harlequin sells books under several imprints including Harlequin, MIRA, HQN, LUNA, Kimani Press and Carina Press. Harlequin sells books through the retail channel, in stores and online, and directly to the consumer through its direct mail businesses and from its internet sites (in North America – Harlequin.com). Harlequin's publishing operations are comprised of two divisions: North America and Overseas. In 2011 Harlequin published books in 34 languages in 114 international markets.

Associated Businesses

Torstar has a 19.35% equity investment in Black Press, an approximate 25% equity investment in Blue Ant, a 33.33% equity investment in Canadian Press and until January 2012, a 30% equity investment in Q-ponz Inc.

Black Press is a privately held company that publishes more than 150 newspapers (weeklies, dailies and shoppers) in Canada and the U.S. and has 16 press centres in Western Canada, Washington State, Ohio and Hawaii.

Blue Ant is an independent media company which holds a controlling interest in GlassBOX Television (operating specialty channels Travel+Escape, Bite TV and AUX TV), a minority interest in Quarto Communications (publisher of Cottage Life, Outdoor Canada, Explore and Canadian Home Workshop) and a minority interest in High Fidelity HDTV (operating four premium high definition channels Oasis HD, eqhd, radX and HIFI). Torstar invested $16.9 million on December 21, 2011 and will invest a further $5.8 million simultaneously with the completion of the acquisition by Blue Ant of 100% of High Fidelity TV (which is subject to approval by the Canadian Radio-television and Telecommunications Commission "CRTC").

Canadian Press operates The Canadian Press news agency. Torstar invested an initial $0.8 million in November 2010 and committed to invest an additional $0.5 million in 2011.

Q-ponz produces and delivers unaddressed co-op direct mail. Torstar sold its interest in Q-ponz in early 2012.

OPERATING RESULTS – YEAR ENDED DECEMBER 31, 2011

Overall Performance

The following table sets out the segmented results for the years ended December 31, 2011 and 2010.

	2011				2010			
(in $000's)	Media	Book Publishing	Corporate	Total	Media	Book Publishing	Corporate	Total
Operating revenue	$1,089,330	$459,427		$1,548,757	$1,015,696	$468,072		$1,483,768
Salaries and benefits	(398,842)	(100,014)	($12,227)	(511,083)	(392,949)	(98,206)	($10,574)	(501,729)
Other operating costs	(518,818)	(273,320)	(3,287)	(795,425)	(446,572)	(281,770)	(3,364)	(731,706)
EBITDA	171,670	86,093	(15,514)	242,249	176,175	88,096	(13,938)	250,333
Amortization & depreciation	(29,415)	(3,695)	(55)	(33,165)	(27,469)	(3,965)	(58)	(31,492)
Operating earnings	142,255	82,398	(15,569)	209,084	148,706	84,131	(13,996)	218,841
Restructuring and other charges	(18,860)	(551)		(19,411)	(29,536)	(357)	(2,755)	(32,648)
Operating profit	$123,395	$81,847	($15,569)	$189,673	$119,170	$83,774	($16,751)	$186,193

Revenue

Total revenue was $1,548.8 million in 2011, up $65.0 million from $1,483.8 million in 2010. The increase included an increase of $18.3 million from a change in reporting for Torstar's share of Metro's revenues, $24.7 million from acquisitions and a $7.7 million decrease from the impact of foreign exchange. Excluding these items, total revenue was up $29.7 million in 2011. Media Segment revenues, excluding the above items, were up $34.7 million in 2011 including $45.3 million of higher product sales in Metroland Media Group's TMGTV operations and $19.2 million of growth in digital revenues. Print advertising revenues were down in the year with softness in national and retail categories. Digital revenues in the Media Segment were up 22.8% year over year. Book Publishing Segment revenues, excluding the impact of foreign exchange and acquisitions, were down $5.1 million in 2011 with digital revenue growth not offsetting declines in print revenue in the Overseas markets.

Salaries and benefits

Total salaries and benefits expense was up $9.4 million or 1.9% in 2011 as significant savings from restructuring initiatives in the newspaper businesses in the Media Segment reduced the impact of acquisitions, increased staffing in the Media Segment digital operations, regular wage increases and a $1.3 million expense in Corporate from the mark-to-market adjustments of a share-based compensation hedging instrument.

Other operating costs
Total other operating costs were up $63.7 million or 8.7% in 2011. The increase included the impact of acquisitions, higher product costs for the TMGTV product sales, market expansions and investment spending in the digital operations. In the Media Segment, newsprint pricing was flat year over year while consumption was down. The Book Publishing Segment had lower promotional spending and overhead costs in 2011.

EBITDA
EBITDA was $242.2 million in 2011, down $8.1 million from $250.3 million in 2010. Media Segment EBITDA was down $4.5 million as higher costs more than offset revenue growth. Book Publishing Segment EBITDA was down $2.0 million including a decline of $6.4 million from the impact of foreign exchange and a $0.7 million benefit from acquisitions. Corporate expenses were up $1.6 million in 2011 as lower professional fees were more than offset by higher compensation costs, including the mark-to-market adjustment of a share-based compensation hedging instrument.

Amortization and depreciation
Amortization and depreciation expense was $1.7 million higher in 2011, primarily from the amortization of intangible assets acquired through acquisitions in the Media Segment.

Operating earnings
Operating earnings were $209.1 million in 2011, down $9.7 million from $218.8 million in 2010.

Restructuring and other charges
Restructuring and other charges of $19.4 million were recorded in 2011. This included $15.6 million for restructuring initiatives in the Media Segment and $0.6 million in the Book Publishing Segment. It also included a $3.2 million provision for rented space that the Media Segment vacated as reduced staff counts allowed for space consolidation. The provision represents the discounted shortfall between the remaining obligation under the existing leases and the amounts to be received through sublease arrangements. The annual cost savings from the space consolidation are approximately $1.3 million a year with $0.3 million realized in the fourth quarter of 2011.

The 2011 restructuring initiatives in the Media Segment are expected to result in annualized net labour savings of approximately $9.4 million and a reduction of approximately 150 positions. $1.5 million of the savings were realized in 2011. The 2011 restructuring initiatives in the Book Publishing Segment are expected to result in annualized savings of approximately $0.5 million and a reduction of 5 positions. $0.2 million of the savings was realized in the fourth quarter of 2011.

Restructuring and other charges of $32.6 million were recorded in 2010 including $28.2 million of restructuring provisions in the Media Segment, $2.8 million of costs related to Torstar's bid to purchase the newspaper and digital businesses of Canwest Limited Partnership and its related entities, a $1.2 million adjustment to a provision for litigation in the Media Segment and $0.4 million related to transaction costs from Harlequin's acquisition of the other half of the German publishing business.

The Media Segment has undertaken several restructuring initiatives between 2009 and 2011 in order to reduce ongoing operating costs. The following chart provides a summary of the realized and expected net savings (including rent savings) by year:

(in $000's)	Year of initiative			Total
	2009	2010	2011	
Realized net savings in:				
2009	$12,700			$12,700
2010	10,200	$4,700		14,900
2011	600	11,200	$1,800	13,600
Expected net savings in:				
2012		2,800	8,300	11,100
2013		2,100	600	2,700
Annualized net savings	$23,500	$20,800	$10,700	$55,000

Operating profit

Operating profit was $189.7 million in 2011, up $3.5 million from $186.2 million in 2010.

Interest and financing costs

Interest and financing costs were $16.6 million in 2011, down $7.5 million from $24.1 million in 2010.

(in $000's)	2011	2010
Interest expense (net)	$10,168	$23,342
Swap settlement charge	3,794	
Interest accretion costs	2,667	793
Interest and financing costs	$16,629	$24,135

2011 interest expense was $10.2 million, down $13.1 million from $23.3 million in 2010. The lower expense reflects the significantly lower level of average net debt outstanding in the last three quarters of 2011 and lower effective interest rates. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $171.5 million in 2011, down $289.2 million from $460.7 million in 2010. Torstar's effective interest rate on long-term debt was 3.9% in 2011 and 4.9% in 2010. Net debt was $153.3 million at December 31, 2011, down $215.3 million from $368.6 million at December 31, 2010.

In 2011, Torstar also incurred a $3.8 million charge related to the settlement of Canadian dollar debt interest rate swaps. In 2006, in connection with the investment in CTV, Torstar had entered into interest rate swap agreements to fix the rate of interest on $250 million of Canadian dollar borrowings at 4.3% (plus the applicable interest rate spread based on Torstar's long-term credit rating) through September 2011. The five-year swap arrangements required a resetting of pricing and debt instruments every ninety days with a reset date occurring in March 2011. In anticipation of the receipt of the funds from the completion of the CTV sale, the swap arrangements were not reset in March and Torstar settled the swaps.

Interest accretion costs related to contingent consideration estimates, long-term restructuring provisions and deferred acquisition payments were $2.7 million in 2011 and $0.8 million in 2010.

Adjustment to contingent consideration

In 2011, adjustments to contingent consideration estimates resulted in income of $0.6 million. Estimates of the fair value of contingent consideration are recorded on the date of the related acquisition and are revised in future periods as changes in the estimated payments occur.

Foreign exchange

The non-cash foreign exchange gain or loss reported in the consolidated statement of income primarily relates to the translation of U.S. dollar denominated assets and liabilities held by Torstar's Canadian operations into Canadian dollars. It does not include the translation of foreign currency (including U.S. dollars) denominated

assets and liabilities of Torstar's foreign operations or the translation of U.S. dollar debt that has been designated as a hedge against those net U.S. dollar denominated assets. The foreign exchange on the translation of those foreign-currency denominated assets and liabilities and the related hedge-designated debt into Canadian dollars is reported through other comprehensive income. The amount of the non-cash foreign exchange gain or loss in any year will vary depending on the movement in the relative value of the Canadian dollar and on whether Torstar's Canadian operations have a net asset or net liability position in U.S. dollars.

Torstar reported a non-cash foreign exchange loss of $3.5 million in 2011 as a result of the Canadian dollar being weaker at the end of the year compared with the beginning and with Torstar's Canadian operations being in a net liability position in U.S. dollars for most of the year. In 2010, Torstar's Canadian operations were in a net liability position in U.S. dollars, but the Canadian dollar was stronger at the end of the year compared with the beginning resulting in a non-cash foreign exchange gain of $4.8 million.

Torstar's net liability position in U.S. dollars was larger in 2010 as Torstar had not designated any of its U.S. dollar debt as a hedge against its net investment in U.S. dollar denominated operations thereby increasing the net liability position in U.S. dollars. Effective January 1, 2011, Torstar has designated $80.0 million of its U.S. dollar denominated debt as a hedge against its net investment in the Book Publishing businesses that have the U.S. dollar as their functional currency. This reduces Torstar's net liability position in U.S. dollars.

Loss of associated businesses

Loss of associated businesses was $2.2 million in 2011 and $28.3 million in 2010.

Torstar recorded a loss of $1.6 million in 2011 as its share of Canadian Press's results through the third quarter of 2011 when Torstar's carrying value was reduced to nil. Torstar will begin again to report its share of Canadian Press's results once the unrecognized losses ($3.9 million as of December 31, 2011) have been offset by net income, other comprehensive income or additional investments are made.

Torstar recorded a loss of $0.5 million in 2011 and $0.4 million in 2010 as its share of Q-ponz's results.

Torstar ceased to equity account for its investment in CTV on September 10, 2010 and subsequently sold its investment on April 1, 2011. Torstar has not recorded any amounts related to CTV in the loss of associated businesses in 2011. Torstar's share of CTV's net loss was $28.0 million in 2010, representing CTV's results through September 10, 2010.

Torstar has not recorded its share of Black Press' results in either 2011 or 2010 as Torstar's carrying value in Black Press was previously reduced to nil. Torstar's share of Black Press's net income would have been $3.3 million in 2011 up from $0.1 million in 2010. $2.3 million of the improvement related to impairment losses recorded by Black Press in 2010. Torstar will begin again to report its share of Black Press's results once the unrecognized losses ($0.3 million as of December 31, 2011) have been offset by net income or other comprehensive income.

Blue Ant has an August fiscal year end and therefore does not have coterminous quarter-ends with Torstar. Torstar will start recording its share of Blue Ant's results in fiscal 2012 with the first quarter including Blue Ant's results for their quarter ended February 29, 2012.

Other income

Under IFRS, when a business combination is achieved in stages, the acquirer is required to remeasure its previously held interest in the acquiree to the acquisition date fair value and recognize the resulting gain or loss, if any, in profit or loss. This remeasurement resulted in other income of $19.1 million in 2011 related to Torstar's increased ownership of Metro and save.ca and $3.5 million in 2010 from Harlequin's acquisition of the other half of the German publishing business. (See the Revised quarterly results section of this MD&A for additional information.)

Gain on sale of assets

Torstar recognized a gain on sale of assets of $4.1 million in 2010. This included $1.3 million on the sale of a small piece of excess land in Vaughan and $2.8 million realized on the formation of a joint venture with Rogers

Media to manage and further develop the Total Online Publishing Solutions ("TOPS") system. The TOPS system is a content management system for internet media publishers that was developed by Torstar.

CTV Inc. – gain on sale/remeasurement

In 2011, Torstar recorded a gain of $74.6 million on the sale of its interest in CTV. The transaction closed on April 1, 2011 and Torstar received cash proceeds of $291.6 million. Torstar entered into the agreements to sell its interest in CTV in September 2010, with the sale subject to customary approvals and closing conditions, including approval by the CRTC. Effective with the signing of the agreements, Torstar recorded a $115.5 million remeasurement gain as the investment was reclassified as available-for-sale and remeasured at estimated fair value. (See the Revised quarterly results section of this MD&A for additional information.)

Investment write-down

In 2011, Torstar management determined that there had been an other than temporary decline in the value of the investment in Q-ponz. A $0.5 million write-down was recorded in 2011, reducing the carrying value to nil. In early 2012, the Company sold its interest in Q-ponz to the controlling shareholder for nominal consideration. During 2010, Torstar recognized an investment write-down of $0.8 million related to two small portfolio investments.

Income and other taxes

There were several items in Torstar's net income before taxes in 2011 and 2010 that were not tax-affected and therefore had an impact on Torstar's effective tax rate in both years. This included the 2011 gain on the sale of CTV, the 2011 remeasurement gain on the Metro and save.ca transactions, the 2010 loss of associated businesses related to CTV, the 2010 remeasurement gain on Torstar's investment in CTV and the 2010 remeasurement gain on Harlequin's German transaction. In addition, Torstar recorded $10.0 million in 2011 and $3.0 million in 2010 as a tax benefit from the recognition of tax losses that had previously not been recognized.

Excluding the impact of these items in both years, Torstar's effective tax rate was 31.6% in 2011 and 31.2% in 2010. The Canadian statutory rate was lower in 2011, although Torstar only realized a portion of the benefit as a large proportion of its income is taxed in foreign jurisdictions where tax rates remain unchanged. The effective tax rate was lower in 2010 primarily due to capital gains that were tax-affected at 50% of the statutory rate.

Net income attributable to equity shareholders

Torstar reported net income attributable to equity shareholders of $217.7 million or $2.74 per share in 2011 up $7.8 million or $0.09 per share from $209.9 million or $2.65 per share in 2010. Excluding the impact of CTV in both years, Torstar would have reported net income attributable to equity shareholders of $143.1 million or $1.80 per share in 2011 up $20.7 million or $0.26 per share from $122.4 million or $1.54 per share in 2010.

The average number of Class A voting shares and Class B non-voting shares outstanding was 79.4 million in 2011 up slightly from 79.1 million in 2010.

The following chart provides a continuity of earnings per share from 2010 to 2011:

Net income attributable to equity shareholders per share 2010		$2.65
• CTV - loss from associated businesses (2010)		0.35
• CTV - remeasurement gain (2010)		(1.46)
Adjusted net income attributable to equity shareholders per share 2010		1.54
Changes		
• Operations	0.06	
• Restructuring and other charges	0.12	
• Settlement of interest rate swap contracts	(0.03)	
• Non-cash foreign exchange	(0.06)	
• Adjustment to contingent consideration	0.01	
• Other income (remeasurement gains on step acquisitions)	0.20	
• Gain on sale of assets (2010)	(0.04)	
Pre CTV gain net income attributable to equity shareholders per share		1.80
• CTV – gain on sale (2011)		0.94
Net income attributable to equity shareholders per share 2011		$2.74

Segment Operating Results – Media
The following table sets out operating earnings for the Media Segment for the years ended December 31, 2011 and 2010.

	2011			**2010**		
(in $000's)	**MMG**	**SMG**	**Total**	**MMG**	**SMG**	**Total**
Operating revenue	$582,378	$506,952	$1,089,330	$541,735	$473,961	$1,015,696
Salaries and benefits	(227,321)	(171,521)	(398,842)	(224,090)	(168,859)	(392,949)
Other operating costs	(253,153)	(265,665)	(518,818)	(213,547)	(233,025)	(446,572)
EBITDA	101,904	69,766	171,670	104,098	72,077	176,175
Amortization & depreciation	(11,249)	(18,166)	(29,415)	(10,124)	(17,345)	(27,469)
Operating earnings	$90,655	$51,600	$142,255	$93,974	$54,732	$148,706

Total revenue of the Media Segment was $1,089.3 million in 2011, up $73.6 million from $1,015.7 million in 2010. The revenue growth included $18.3 million from a change in the reporting for Torstar's share of Metro's results and $20.6 million from acquisitions. Significant acquisitions in 2011 were Performance Printing, Starmail Distributors, Tuango.ca and the incremental ownership of the Metro newspapers. Excluding these items, Media Segment revenue was up $34.7 million in 2011 including $45.3 million of higher product sales in Metroland Media Group's TMGTV operations and $19.2 million of growth in digital revenues. Print advertising revenues were down in the year with softness in national and retail categories as print advertising continued to be impacted by weak economic conditions. Digital revenue was 11.2% of Media Segment revenue in 2011, up from 9.8% in 2010.

At the end of 2010, the jointly-owned Metro operations met certain milestones that resulted in a change in how Torstar reports its share of the results effective with the first quarter of 2011. The change results in a higher amount of revenue and expenses being reported by Torstar but with no change in operating earnings. The impact on the Media Segment of the change in reporting was an increase of $18.3 million to both revenue and expenses in 2011.

The Media Segment expenses were up $78.1 million in 2011 including $5.9 million of higher salaries and benefits and $72.2 million of other operating costs. The increase included higher product sales costs, the change in reporting for Metro, increased expenses related to the acquisitions, market expansions and the continued

investment in the digital businesses. Offsetting a portion of these higher costs was $13.6 million of net savings from restructuring initiatives. Newsprint pricing was flat year over year.

Media Segment EBITDA was $171.7 million in 2011, down $4.5 million from $176.2 million in 2010. Media Segment operating earnings were $142.3 million in 2011, down $6.4 million from $148.7 million in 2010.

Metroland Media Group

Metroland Media Group revenues were $582.4 million in 2011 up $40.7 million from $541.7 million in 2010, including a $10.8 million increase from acquisitions. Excluding acquisitions, revenues were up $29.9 million in the year. Revenue growth included $45.3 million from higher product sales in the TMGTV operations and digital revenue growth of $11.0 million. Offsetting these increases were lower print revenues. Both the community and daily newspapers experienced print advertising revenue declines across most categories.

Metroland Media Group expenses were up $42.8 million in 2011, including $3.2 million of higher salaries and benefits and $39.6 million of higher other operating costs. Total expenses were higher in 2011 from a combination of higher product costs in the TMGTV operation, acquisitions, market expansions and investment in the digital operations partially offset by net savings of $3.8 million from restructuring initiatives.

Metroland Media Group's EBITDA was $101.9 million in 2011 down $2.2 million from $104.1 million in 2010. Metroland Media Group's operating earnings were $90.7 million in 2011 down $3.3 million from $94.0 million in 2010.

Star Media Group

Star Media Group revenues were $507.0 million in 2011, up $33.0 million from $474.0 million in 2010. Excluding the increase of $18.3 million from the change in reporting for Metro and $9.8 million from acquisitions, revenues were up $4.9 million in 2011.

Toronto Star print advertising revenues were down 6.4% in 2011 with declines across most categories. National and multi-market retail categories were significant contributors to the decline. Circulation revenue was up 1.7% in 2011 from a combination of price increases and opt-in products. The Metro newspapers had significant revenue growth in 2011, benefiting from improved national advertising as well as the expansion into London and Winnipeg. Sing Tao revenues were also up in the year with growth in both newspapers and magazine revenues. Star Media Group digital revenues were up $8.1 million in 2011, excluding acquisitions.

Star Media Group expenses were up $35.3 million in 2011 including $2.7 million of higher salaries and benefits and $32.6 million of higher other operating costs. Total expenses were higher in 2011 from a combination of the change in reporting for Metro, acquisitions, Metro's market expansions and continued investment in staff and marketing in the digital operations partially offset by $9.8 million of net savings from restructuring efforts.

Star Media Group EBITDA was $69.8 million in 2011, down $2.3 million from $72.1 million in 2010. Star Media Group operating earnings were $51.6 million in 2011 down $3.1 million from $54.7 million in 2010.

Segment Operating Results – Book Publishing

The following tables set out a summary of operating earnings for the Book Publishing Segment and a continuity of revenue and operating earnings, including the impact of foreign currency movements and foreign exchange contracts, for the years ended December 31, 2011 and 2010.

(in $000's)	2011	2010
Operating revenue	$459,427	$468,072
Salaries and benefits	(100,014)	(98,206)
Other operating costs	(273,320)	(281,770)
EBITDA	86,093	88,096
Amortization & depreciation	(3,695)	(3,965)
Operating earnings	$82,398	$84,131

(in $000's)	
Reported revenue, prior year	$468,072
Impact of currency movements and foreign exchange contracts	(7,673)
Change in underlying revenue	(972)
Reported revenue, current year	$459,427
Reported operating earnings, prior year	$84,131
Impact of currency movements and foreign exchange contracts	(6,374)
Change in underlying operating earnings	4,641
Reported operating earnings, current year	$82,398

In 2011, Book Publishing revenues were down $5.1 million excluding the impact of foreign exchange and acquisitions. North America revenues were up $1.4 million and Overseas revenues were down $6.5 million.

North American division revenues were up $1.4 million and operating earnings were up $5.0 million in 2011 excluding the impact of foreign exchange. Digital revenues were up $29.5 million reflecting the continued growth of the digital book market. Sales of print books declined during the year. Retail print revenues were down $23.5 million with lower volumes from the shift in format from physical to digital books and lower positive adjustments to prior year returns provisions in 2011. Direct-to-consumer revenues were down $4.6 million in the year. The traditional direct mail business was down reflecting the ongoing trend in this channel.

Overseas division revenues were down $6.5 million and operating earnings were down $1.1 million in 2011 excluding the impact of foreign exchange and the benefit from the acquisition of the other half of the German business at the beginning of the second quarter of 2010. The economic weakness in Europe had a negative impact on Harlequin's Overseas operations in 2011. Higher digital revenues, primarily in the U.K. and Japan, were not sufficient to offset lower revenues in the retail print and the direct-to-consumer businesses. The revenue decline was partially offset by lower promotional spending and overheads.

Global digital revenues were 15.5% of total revenue in 2011, up from 7.7% in 2010.

OPERATING RESULTS – THREE MONTHS ENDED DECEMBER 31, 2011

Overall Performance

The following table sets out the segmented results for the three months ended December 31, 2011 and 2010.

	2011				2010			
(in $000's)	Media	Book Publishing	Corporate	Total	Media	Book Publishing	Corporate	Total
Operating revenue	$307,281	$118,055		$425,336	$297,560	$119,970		$417,530
Salaries and benefits	(104,414)	(25,382)	($2,889)	(132,685)	(105,047)	(26,125)	($3,201)	(134,373)
Other operating costs	(139,307)	(71,443)	(713)	(211,463)	(131,445)	(75,954)	(335)	(207,734)
EBITDA	63,560	21,230	(3,602)	81,188	61,068	17,891	(3,536)	75,423
Amortization & depreciation	(8,305)	(884)	(10)	(9,199)	(6,692)	(962)	(10)	(7,664)
Operating earnings	55,255	20,346	(3,612)	71,989	54,376	16,929	(3,546)	67,759
Restructuring and other charges	(13,550)	(113)		(13,663)	(17,544)		24	(17,520)
Operating profit	$41,705	$20,233	($3,612)	$58,326	$36,832	$16,929	($3,522)	$50,239

Revenue

Total revenue was $425.3 million in the fourth quarter of 2011, up $7.8 million from $417.5 million in the fourth quarter of 2010. The increase included an increase of $5.7 million from a change in reporting for Torstar's share of Metro's revenues, $15.1 million from acquisitions and a $0.3 million increase from the impact of foreign exchange. Excluding these items, total revenue was down $13.3 million in the fourth quarter of 2011. Media Segment revenues, excluding the above items, were down $11.1 million in the fourth quarter. Print advertising

declines more than offset $5.7 million of higher product sales in Metroland Media Group's TMGTV operations and $0.3 million of growth in digital revenues. Book Publishing Segment revenues, excluding the impact of foreign exchange, were down $2.3 million in the fourth quarter of 2011 with digital revenue growth not offsetting declines in the print businesses, particularly in the Overseas markets.

Salaries and benefits
Total salaries and benefits expense was down $1.7 million or 1.3% in the fourth quarter as savings in the newspaper businesses in the Media Segment from restructuring initiatives more than offset the impact of acquisitions, increased staffing in the Media Segment digital operations and regular wage increases.

Other operating costs
Total other operating costs were up $3.7 million or 1.8% in the fourth quarter of 2011. The increase included the impact of acquisitions, higher product costs for the TMGTV product sales and market expansions. In the Media Segment, newsprint pricing was flat year over year while consumption was down. The Book Publishing Segment had lower promotional spending and overhead costs in the fourth quarter.

EBITDA
EBITDA was $81.2 million in the fourth quarter of 2011, up $5.8 million from $75.4 million in the fourth quarter of 2010. Media Segment EBITDA was up $2.5 million including the benefit of acquisitions. Book Publishing Segment EBITDA was up $3.3 million including a decline of $0.7 million from the impact of foreign exchange.

Amortization and depreciation
Amortization and depreciation expense was $1.5 million higher in the fourth quarter of 2011, primarily from the amortization of intangible assets acquired through acquisitions in the Media Segment.

Operating earnings
Operating earnings were $72.0 million in the fourth quarter of 2011, up $4.2 million from $67.8 million in the fourth quarter of 2010.

Restructuring and other charges
Restructuring charges of $13.7 million and $17.5 million were recorded in the fourth quarter of 2011 and 2010 respectively. The Media Segment fourth quarter 2011 restructuring provisions of $13.6 million are expected to result in annual net savings of $6.8 million and a reduction of approximately 110 positions.

Operating profit
Operating profit was $58.3 million in the fourth quarter of 2011, up $8.1 million from $50.2 million in the fourth quarter of 2010.

Interest and financing costs
Interest and financing costs were $2.1 million in the fourth quarter of 2011, down $4.2 million from $6.3 million in the fourth quarter of 2010.

(in $000's)	2011	2010
Interest expense (net)	$1,379	$6,024
Interest accretion costs	682	304
Interest and financing costs	$2,061	$6,328

Interest expense was $1.4 million in the fourth quarter of 2011, down $4.6 million from $6.0 million in the fourth quarter of 2010. The lower expense reflects the significantly lower level of average net debt outstanding in 2011 and lower effective interest rates. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $121.1 million in the fourth quarter of 2011, down $288.1 million from $409.2 million in the same period last year. Torstar's effective interest rate on long-term debt was 3.0% in the fourth quarter of 2011 and 5.4% in the fourth quarter of 2010.

Interest accretion costs related to contingent consideration estimates, long-term restructuring provisions and deferred acquisition payments were $0.7 million in the fourth quarter of 2011 and $0.3 million in the fourth quarter of 2010.

Foreign exchange
Torstar reported a non-cash foreign exchange loss of $0.5 million in the fourth quarter of 2011 compared with a gain of $4.4 million in the same period last year.

Torstar's Canadian operations were in a net asset position in U.S. dollars in the fourth quarter of 2011 and a net liability position in the fourth quarter of 2010 and the Canadian dollar strengthened as at the end of the year relative to the beginning of the fourth quarter in both years.

Torstar's net liability position in U.S. dollars was larger in 2010 as Torstar had not designated any of its U.S. dollar debt as a hedge against its net investment in U.S. dollar denominated operations thereby increasing the net liability position in U.S. dollars. Effective January 1, 2011, Torstar has designated $80.0 million of its U.S. dollar denominated debt as a hedge against its net investment in the Book Publishing businesses that have the U.S. dollar as their functional currency. This reduces Torstar's net liability position in U.S. dollars.

Loss of associated businesses
Loss of associated businesses was $0.4 million from Q-ponz in the fourth quarter of both 2011 and 2010.

Torstar did not record its share of Black Press's or Canadian Press's results in the fourth quarter of 2011 as Torstar's carrying value in both investments had previously been reduced to nil. Torstar's share of Black Press's net income would have been $2.1 million in the fourth quarter of 2011 down slightly from $2.5 million in the fourth quarter of 2010. Torstar's share of Canadian Press's results would have been a loss of $0.3 million in the fourth quarter of 2011.

Blue Ant has an August fiscal year end and therefore does not have coterminous quarter-ends with Torstar. Torstar will start recording its share of Blue Ant's results in fiscal 2012 with the first quarter including Blue Ant's results for their quarter ended February 29, 2012.

Other income
Under IFRS, when a business combination is achieved in stages, the acquirer is required to remeasure its previously held interest in the acquiree to the acquisition date fair value and recognize the resulting gain or loss, if any, in profit or loss. This remeasurement resulted in other income of $19.0 million in the fourth quarter of 2011 related to Torstar's increased ownership of Metro.

Gain on sale of assets
Torstar recognized a gain on sale of assets of $1.3 million in the fourth quarter of 2010 on the sale of a small piece of excess land in Vaughan.

Investment write-down
In the fourth quarter of 2011, Torstar management determined that there had been an other than temporary decline in the value of the investment in Q-ponz. A $0.5 million write-down was recorded, reducing the carrying value to nil. In early 2012, the Company sold its interest in Q-ponz to the controlling shareholder for nominal consideration. In the fourth quarter of 2010, Torstar recognized an investment write-down of $0.8 million related to two small portfolio investments.

Income and other taxes
In the fourth quarter of 2011, the remeasurement gain on the Metro transaction was not tax-affected. In addition, Torstar recorded $8.7 million in the fourth quarter of 2011 and $2.8 million in the fourth quarter of 2010 as a tax benefit from the recognition of tax losses that had previously not been recognized.

Excluding the impact of these items in both years, Torstar's effective tax rate was 32.7% in the fourth quarter of 2011 and 30.0% in the fourth quarter of 2010. The Canadian statutory rate was lower in 2011, although Torstar only realized a portion of the benefit as a large proportion of its income is taxed in foreign jurisdictions where tax

rates remain unchanged. The higher effective rate in 2011 reflected the mix of income and the impact of capital gains in 2010 that were tax-affected at 50% of the statutory rate.

Net income attributable to equity shareholders

Torstar reported net income attributable to equity shareholders of $64.3 million or $0.81 per share in the fourth quarter of 2011 up $28.0 million or $0.35 per share from $36.3 million or $0.46 per share in the fourth quarter of 2010.

The average number of Class A voting shares and Class B non-voting shares outstanding was 79.5 million in the fourth quarter of 2011 up slightly from 79.1 million in the fourth quarter of 2010.

The following chart provides a continuity of earnings per share from 2010 to 2011:

Net income attributable to equity shareholders per share 2010		$0.46
Changes		
• Operations	0.12	
• Restructuring and other charges	0.03	
• Non-cash foreign exchange	(0.03)	
• Other income (remeasurement gain on step acquisitions)	0.24	
• Gain on sale of assets (2010)	(0.01)	
Net income attributable to equity shareholders per share 2011		$0.81

Segment Results – Media

The following table sets out operating earnings for the Media Segment for the three months ended December 31, 2011 and 2010.

	2011			**2010**		
(in $000's)	**MMG**	**SMG**	**Total**	**MMG**	**SMG**	**Total**
Operating revenue	$162,319	$144,962	$307,281	$158,467	$139,093	$297,560
Salaries and benefits	(62,060)	(42,354)	(104,414)	(61,187)	(43,860)	(105,047)
Other operating costs	(68,348)	(70,959)	(139,307)	(63,585)	(67,860)	(131,445)
EBITDA	31,911	31,649	63,560	33,695	27,373	61,068
Amortization & depreciation	(3,289)	(5,016)	(8,305)	(2,266)	(4,426)	(6,692)
Operating earnings	$28,622	$26,633	$55,255	$31,429	$22,947	$54,376

Total revenue of the Media Segment was $307.3 million in the fourth quarter of 2011, up $9.7 million from $297.6 million in the fourth quarter of 2010. The revenue growth included $5.7 million from a change in the reporting for Torstar's share of Metro's results and $15.1 million from acquisitions. Significant acquisitions were Performance Printing, Starmail Distributors, Tuango.ca and the incremental increase in ownership of the English-language Metro newspapers in Canada. Excluding these items, Media Segment revenue was down $11.1 million in the fourth quarter. Print advertising revenue declines more than offset $5.7 million of higher product sales in Metroland Media Group's TMGTV operations and $0.3 million of growth in digital revenues. Digital revenue was 10.6% of Media Segment revenues in the fourth quarter of 2011 and 10.4% in the fourth quarter of 2010.

At the end of 2010, the jointly-owned Metro operations met certain milestones that resulted in a change in how Torstar reports its share of the results effective with the first quarter of 2011. The change results in a higher amount of revenue and expenses being reported by Torstar but with no change in operating earnings. The impact on the Media Segment of the change in reporting was an increase of $5.7 million to both revenue and expenses in the fourth quarter of 2011.

The Media Segment expenses were up $7.2 million in the fourth quarter of 2011 including $7.8 million of higher other operating costs partially offset by $0.6 million of lower salaries and benefits. Total expenses were higher in the fourth quarter of 2011 from a combination of higher product costs in the TMGTV operation, the change in

reporting for Metro, acquisitions and market expansions partially offset by net savings of $3.1 million from restructuring initiatives and lower year over year expenses related to growth initiatives in digital and other areas. Newsprint pricing was flat year over year in the quarter.

Media Segment EBITDA was $63.6 million in the fourth quarter of 2011, up $2.5 million from $61.1 million in the fourth quarter of 2010.

Metroland Media Group

Metroland Media Group revenues were $162.3 million in the fourth quarter of 2011 up $3.8 million from $158.5 million in the fourth quarter of 2010, including a $7.7 million increase from acquisitions. Excluding acquisitions, revenues were down $3.9 million in the fourth quarter as $5.7 million of revenue growth from product sales in the TMGTV operations and $1.1 million of digital revenue growth were more than offset by revenue declines in print advertising and distributions. Both the community and daily newspapers experienced print advertising revenue declines across most categories.

Metroland Media Group expenses were up $5.6 million in the fourth quarter of 2011, including $0.9 million of higher salaries and benefits and $4.7 million of higher other operating costs. Total expenses were higher in the fourth quarter of 2011 from a combination of higher product costs in the TMGTV operation, acquisitions and market expansions partially offset by net savings of $1.0 million from restructuring initiatives.

Metroland Media Group's EBITDA was $31.9 million in the fourth quarter of 2011 down $1.8 million from $33.7 million in the fourth quarter of 2010. Metroland Media Group's operating earnings were $28.6 million in the fourth quarter of 2011 down $2.8 million from $31.4 million in the same period last year.

Star Media Group

Star Media Group revenues were $145.0 million in the fourth quarter of 2011, up $5.9 million from $139.1 million in the fourth quarter of 2010. Excluding the increase of $5.7 million from the change in reporting for Metro and $7.4 million from acquisitions, revenues were down $7.2 million in the fourth quarter of 2011.

Toronto Star print advertising revenues were down 12.1% in the fourth quarter of 2011 with continued weakness in the retail category and a decline in the national category, in particular the national financial category. Circulation revenue was up 3.5% in the fourth quarter of 2011 from a combination of price increases and opt-in products. The Metro newspapers had revenue growth in the fourth quarter of 2011, benefiting from improved national advertising as well as the expansion into London and Winnipeg. Sing Tao revenues were up slightly in the fourth quarter. Star Media Group digital revenues were down $0.8 million in the fourth quarter of 2011, excluding acquisitions, with softness in national advertising impacting both thestar.com and Olive Media.

Star Media Group expenses were up $1.6 million in the fourth quarter of 2011 including $3.1 million of higher other operating costs partially offset by $1.5 million of lower salaries and benefits. Total expenses were higher in the fourth quarter of 2011 from a combination of the change in reporting for Metro, acquisitions, Metro's market expansions and investment in staff in the digital operations. These were partially offset by $2.1 million of net savings from restructuring efforts and lower year over year marketing in the digital operations.

Star Media Group EBITDA was $31.6 million in the fourth quarter of 2011, up $4.2 million from $27.4 million in the fourth quarter of 2010. Star Media Group operating earnings were $26.6 million in the fourth quarter of 2011 up $3.7 million from $22.9 million in the fourth quarter of 2010.

Segment Results - Book Publishing
The following tables set out a summary of operating earnings for the Book Publishing Segment and a continuity of revenue and operating earnings, including the impact of foreign currency movements and foreign exchange contracts, for the three months ended December 31, 2011 and 2010.

(in $000's)	2011	2010
Operating revenue	$118,055	$119,970
Salaries and benefits	(25,382)	(26,125)
Other operating costs	(71,443)	(75,954)
EBITDA	21,230	17,891
Amortization & depreciation	(884)	(962)
Operating earnings	$20,346	$16,929

(in $000's)	
Reported revenue, fourth quarter prior year	$119,970
Impact of currency movements and foreign exchange contracts	343
Change in underlying revenue	(2,258)
Reported revenue, fourth quarter current year	$118,055
Reported operating earnings, fourth quarter prior year	$16,929
Impact of currency movements and foreign exchange contracts	(704)
Change in underlying operating earnings	4,121
Reported operating earnings, fourth quarter current year	$20,346

Book Publishing revenues were down $2.3 million in the fourth quarter excluding the impact of foreign exchange, with North America down $0.3 million and Overseas down $2.0 million.

North American division revenues were down $0.3 million and operating earnings were up $3.1 million in the fourth quarter of 2011 excluding the impact of foreign exchange. Digital revenues were up $7.0 million while sales of print books declined during the quarter. Retail print revenues were down $6.2 million and direct-to-consumer revenues were down $1.1 million. Higher North American operating earnings in the fourth quarter of 2011 included the benefit from lower costs including incentives and promotional spending as well as lower costs associated with digital revenue.

Overseas division revenues were down $2.0 million and operating earnings were up $1.0 million in the fourth quarter of 2011 excluding the impact of foreign exchange. Digital revenues continued to grow, primarily in the U.K. and Japan, but were more than offset by lower retail print revenues across most markets. Lower overhead costs and promotional spending contributed to the improvement in operating earnings.

Global digital revenues were 17.7% of total revenue in the fourth quarter of 2011, up from 9.5% in the same period last year.

OUTLOOK
The 2012 revenue outlook for the Media Segment remains uncertain. Print advertising continues to be challenged by economic uncertainty and shifts in spending by advertisers. The 2011 acquisitions are expected to contribute revenue growth in 2012 while product sales at TMGTV are anticipated to be lower. Digital revenue growth is expected to continue in 2012. Early indications in 2012 are that advertising revenues remain soft although no clear trend has emerged. On the expense side, in addition to the increased costs from the 2011 acquisitions, the Media Segment is expected to have $1.0 million of higher registered defined benefit pension plan expense along with general cost increases. The Media Segment is anticipated to realize $11.1 million of savings in 2012 from restructuring initiatives undertaken through the end of 2011. Newsprint pricing is expected to be flat year over year. Net investment spending associated with growth initiatives in 2012 is anticipated to be consistent

with 2011 levels. In addition, the more significant acquisitions completed in 2011 are expected to contribute approximately $10.0 million in incremental EBITDA in 2012.

Harlequin had a very strong 2011 but going into 2012 Harlequin continues to face uncertainty around the relationship between digital revenue growth and retail print revenue declines. Early indications are that the pace of digital revenue growth in North America has moderated in 2012. It is, however, unclear whether this moderated growth will slow the decline in retail print sales. Revenues in Harlequin's Overseas division are also expected to continue to be challenged by the weak European economies in 2012. In addition, in 2012 Harlequin will have higher author royalties related to digital revenue. Given these factors, it is anticipated that, excluding the impact of foreign exchange, it will be difficult for Harlequin to match the very good results experienced in 2011. If the Canadian dollar remains at its current levels relative to the U.S. dollar and overseas currencies, Harlequin anticipates a year over year negative foreign exchange impact of approximately $1.1 million, including the impact of the U.S. dollar hedges currently in place.

From a cash flow perspective, in 2012, Torstar anticipates spending in the range of $65.0 - $70.0 million for the required funding of registered defined benefit pension plans, $35.0 million for additions to property, plant, equipment and intangible assets and $14.7 million for payments related to prior year acquisitions and investment commitments.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Torstar's uses the cash generated by its operations to fund capital expenditures, distributions to shareholders, acquisitions and debt repayment. Long-term debt is used to supplement funds from operations as required, generally for capital expenditures or acquisitions.

It is expected that future cash flows from operating activities, combined with the long-term debt facility will be adequate to cover forecasted financing requirements in the short term and long term.

In 2011, $115.0 million of cash was generated by operations, $137.4 million was provided by investing activities and $245.6 million was used for financing activities. Cash and cash equivalents net of bank overdraft increased by $6.9 million in the year from $36.0 million to $42.9 million.

In the fourth quarter of 2011, $46.3 million of cash was generated by operations, $101.7 million was used for investing activities and $53.0 million was generated by financing activities. Cash and cash equivalents net of bank overdraft decreased by $4.2 million in the quarter from $47.1 million to $42.9 million.

Operating Activities

Operating activities provided cash of $115.0 million in 2011, down $42.7 million from $157.7 million in 2010. The lower amount in 2011 reflected higher funding of employee future benefits and a larger increase in non-cash working capital as compared to the same period last year.

Non-cash working capital increased $18.1 million in 2011 from the payment of final 2010 income taxes and a net decrease in current provision balances. $21.6 million was paid against restructuring provisions during 2011. Non-cash working capital increased $5.7 million in 2010. This resulted from higher accounts receivable (improved revenues year over year) offset by higher income taxes payable (timing of installments) and higher accounts payable. $22.1 million was paid against restructuring provisions during 2010.

Cash provided by operating activities was $46.3 million in the fourth quarter of 2011 including a $7.6 million increase in non-cash working capital. In the fourth quarter of 2010, cash provided by operating activities was $58.4 million including a $7.1 million decrease in non-cash working capital. The swing in non-cash working capital year over year was primarily due to a smaller increase in accounts payable in the fourth quarter of 2011 compared to the same period last year. $4.3 million was paid against restructuring provisions in the fourth quarter of 2011 and $5.2 million in the fourth quarter of 2010.

Investing Activities
Cash of $137.4 million was provided by investing activities during 2011 and $12.1 million in 2010.

Cash of $291.6 million was received in 2011 as proceeds on the sale of Torstar's interest in CTV. Cash received in 2010 included a $40.0 million return of capital by CTV, $6.2 million on the collection of a mortgage receivable on the sale of excess land in Vaughan during 2008, $3.0 million on the formation of a joint venture with Rogers Media to manage and further develop the TOPS system and $1.3 million on the sale of a small piece of excess land in Vaughan.

In 2011, Torstar used cash of $101.8 million for acquisitions and investments. This included $48.4 million for the fourth quarter increased ownership in Metro, $42.4 million for several acquisitions in the Media Segment, $6.9 million for the deferred payments related to Harlequin's 2010 acquisition of full ownership of its German publishing business, $3.5 million for deferred and contingent consideration payments in respect of prior year acquisitions in the Media Segment, and $0.6 million for portfolio investments. The other Media Segment acquisitions included Performance Printing, Starmail Distributors, Autocatch.com, Brant News and the remaining 50% of save.ca. The Metro transaction also included a call option liability of $10.8 million related to call and put options that were entered into with regards to the minority interest held by Metro International. The other Media Segment acquisitions included $2.5 million of current payables for deferred purchase payments and an estimate of $1.1 million for contingent consideration.

In 2010, Torstar used cash of $11.4 million for acquisitions and investments. This included $2.4 million for the first of three payments related to Harlequin's acquisition of full ownership of its German publishing business, $3.5 million for deferred purchase and performance payments in respect of prior year acquisitions in the Media Segment and $5.5 million for several acquisitions within the Media Segment. The Media Segment acquisitions included the remaining ownership of Travelwire Inc., wagjag.com and several other smaller businesses.

Cash used for investments in associated businesses was $17.3 million in 2011 and $0.8 million in 2010. The 2011 investments included $16.9 million in Blue Ant and $0.3 million in Canadian Press. The 2010 investment was in Canadian Press.

Additions to property, plant and equipment and intangible assets were $35.0 million in 2011, up $8.0 million from $27.0 million in 2010. The 2011 additions included investment in technology, software, and leasehold improvements across the Media Segment reflecting process improvements, website development and office space consolidation. It also included the completion of the 2010 investment in Harlequin's distribution centre in New York State.

Cash used by investing activities in the fourth quarter of 2011 was $101.7 million including $75.7 million for acquisitions, $17.3 million for investments in associated businesses and $8.7 million for additions to property, plant and equipment and intangible assets. In 2010, cash of $27.5 million was provided by investing activities including the $40.0 million return of capital from CTV and $1.3 million from the sale of assets, offset by $11.8 million spent on additions to property, plant and equipment and intangible assets, $1.6 million spent on acquisitions and investments and $0.8 million for investments in associated businesses.

2012 capital expenditures
Capital expenditures in 2012 are expected to be approximately $35.0 million consistent with the $35.0 million spent in 2011. The 2012 capital expenditures are anticipated to include continued investment in technology and software in the Media Segment in addition to general capital maintenance spending.

Financing Activities
Cash of $245.6 million was used in financing activities during 2011, including $209.8 million for the repayment of long-term debt and $36.9 million for cash dividends paid to shareholders. In the fourth quarter of 2011, cash of $53.0 million was provided by financing activities including $63.1 million of increased long-term debt borrowing less $9.9 million for cash dividends paid to shareholders.

Cash of $170.0 million was used in financing activities during 2010, including $142.3 million for the repayment of long-term debt and $29.0 million for cash dividends paid to shareholders. In the fourth quarter of 2010, cash of

$79.8 million was used in financing activities including $73.0 million for the repayment of long-term debt and $7.2 million for cash dividends paid to shareholders.

Net Debt

Net debt was $153.3 million at December 31, 2011, down $215.3 million from $368.6 million at December 31, 2010. The $215.3 million included $209.8 million of long-term debt repayments, a decrease of $7.4 million from changes in cash and bank overdraft balances and an increase of $1.9 million from the impact of foreign exchange.

Long-term Debt

At December 31, 2011, Torstar had $196.2 million of debt outstanding under its long-term bank credit facility. The debt has been classified as current on the December 31, 2011 consolidated statement of financial position as the renewal of the facility was not effective until January 4, 2012. The debt consisted of U.S. dollar bankers' acceptances of $88.2 million and Canadian dollar bankers' acceptances of $108.0 million.

Credit facility in place at December 31, 2011

As of December 31, 2011, Torstar's long-term bank credit facility consisted of a $275 million revolving term loan (reduced from $425 million in April 2011 at Torstar's request) that matured in January 2012. Prior to April 2011, the long-term bank credit facilities also included a revolving operating loan of $175 million, which was cancelled in April 2011 at Torstar's request. Amounts may be drawn under the facility in either Canadian or U.S. dollars.

The interest rate spread above the bankers' acceptance rate if in Canadian dollars, or the LIBOR rate if in U.S. dollars, varied based on Torstar's long-term credit rating for borrowings under the revolving term loan (range of 0.4% to 1.5%). During 2011, the interest rate spread was 0.6% on the revolving term loan. Prior to April 2011, the interest rate spread on borrowings under the revolving operation loan was 2.25% and varied based on Torstar's net debt to operating cash flow ratio (range of 2.0% to 3.8%).

Credit facility effective January 4, 2012

Torstar's renewed long-term bank credit facility (effective January 4, 2012) consists of a $150 million revolving facility ("Tranche A") that will mature on January 4, 2016 and a $200 million revolving facility ("Tranche B") that will mature on January 4, 2014. Both Tranches provide for annual 364-day extensions upon the mutual agreement of Torstar and the lenders.

Amounts may be drawn under the renewed facility in either Canadian or U.S. dollars. The interest rate spread above the bankers' acceptance rate if in Canadian dollars, or the LIBOR rate if in U.S. dollars, varies based on Torstar's net debt to operating cash flow ratio for borrowings under either Tranche (range of 1.4% to 2.5%). Effective January 2012, the interest rate spread is 1.5%.

Torstar borrows under the bank credit facility primarily in the form of bankers' acceptances. The bankers' acceptances normally mature over periods of 30 to 180 days but as they are issued under the long-term credit facility, their classification is consistent with the facility. Bankers' acceptances are generally issued for a term of less than six months in order to provide for flexibility in borrowing and to benefit from short term interest rates. However, the bankers' acceptances program has been and is intended to continue to be an ongoing source of financing for Torstar. Recognizing this intent, to the extent that the long-term bank credit facility has sufficient credit available that it could be used to replace the outstanding bankers' acceptances, the bankers' acceptances will be classified as long-term debt on Torstar's balance sheet effective with the first quarter of 2012 (once the renewed facility is effective).

Torstar has a policy of maintaining a sufficient level of U.S. dollar denominated debt in order to provide a hedge against its U.S. dollar assets. It is expected that the level of U.S. dollar debt will remain relatively constant during 2012.

Torstar's long-term bank credit facility also acts as a standby line in support of letters of credit. At December 31, 2011, a total of $224.1 million was drawn under the facility, including a $25.2 million letter of credit relating to an executive retirement plan. As of December 31, 2011, Torstar had approximately $50.9 million of available credit.

The available credit increased by $75 million on January 4, 2012 effective with the renewal of the long-term bank credit facility.

Contractual Obligations

Torstar has the following significant contractual obligations (in $000's[1]):

Nature of the Obligation	Total	Less than 1 Year (2012)	1 – 3 Years 2013–2014	4 – 5 Years 2015–2016	After 5 Years 2017 +
Office leases	$131,901	$19,341	$36,128	$32,686	$43,746
Services	17,181	5,321	7,919	3,338	603
Acquisitions	21,464	8,915	12,126	167	256
Investment	5,765	5,765			
Equipment leases	2,010	793	953	257	7
Subtotal	178,321	40,135	57,126	36,448	44,612
Foreign currency forward contracts:					
- payments	88,835	53,240	35,595		
- receipts	(89,721)	(53,724)	(35,997)		
- net	(886)	(484)	(402)		
US $ Interest rate swaps	11,339	3,382	6,764	1,193	
Long-term debt	196,191		46,191	150,000	
Total	$384,965	$43,033	$109,679	$187,641	$44,612

[1] All foreign denominated obligations were translated at the December 31, 2011 spot rates.

Office leases include the offices at One Yonge Street in Toronto for Torstar and the Toronto Star, Harlequin's Toronto head office and the Waterloo Region Record in Kitchener. The One Yonge Street and Kitchener leases extend until the year 2020. Harlequin's lease will expire in 2018. Equipment leases include office equipment and company vehicles.

The services include distribution contracts for some of the Star Media Group properties and Harlequin's U.K. operations and Star Media Group sponsorship commitments. The acquisition obligations relate to the 2009 purchases of gottarent.com and Attitude Digitale, the 2010 purchase of wagjag.com, the 2011 purchases of Autocatch.com, Foodscrooge and the Kit as well as the call option liability for Metro. The investment obligation is the additional investment in Blue Ant that Torstar will make following the completion of the acquisition by Blue Ant of 100% of High Fidelity TV (which is subject to approval by the CRTC).

The foreign currency forward contracts are the U.S. dollar contracts that Torstar uses to manage the exchange risk in Harlequin's U.S. operations. The interest rate swaps are used to manage the risk on variable interest rate debt. More details on these are provided in the Financial Instruments section that follows.

The long-term debt repayment timing reflects the renewal of Torstar's credit facility in January 2012.

Torstar has a guarantee outstanding in relation to an operating lease for a warehouse in New Hampshire that was entered into by one of the businesses in its former Children's Supplementary Education Publishing Segment. Lease payments are under U.S. $1.0 million per year and the lease runs through December 2018. The warehouse has been subleased, on identical terms and conditions, to the purchaser of that business. The sublease is secured by a U.S. $0.7 million letter of credit.

Funding of Post Employment Benefits

Actuarial reports for the most significant group of Torstar's registered defined benefit pension plans (in terms of assets and obligations) were completed as of December 31, 2010. Based on these reports, Torstar's 2011 funding obligation for its registered defined benefit pension plans was $46.4 million. Torstar will be required to prepare another set of actuarial reports as of December 31, 2011 to determine the 2012 funding requirements.

Based on current market conditions, Torstar has estimated that the required funding in 2012 for these pension plans will be in the range of $65.0 - $70.0 million.

FINANCIAL INSTRUMENTS

Foreign Exchange

Harlequin's international operations provide Torstar with approximately 28% of its operating revenues. As a result, fluctuations in exchange rates can have a significant impact on Torstar's reported profitability. Torstar's most significant exposure is to the movements in the U.S.$/Cdn.$ exchange rate. To manage this exchange risk in its operating results, Torstar's practice is to enter into forward foreign exchange contracts to hedge a portion of its U.S. dollar revenues.

In 2011, Torstar sold U.S. $35.5 million under forward foreign exchange contracts at an average exchange rate of $1.07. In 2010, U.S. $51.6 million was sold at an average exchange rate of $1.16. The settlement of these contracts resulted in a foreign exchange gain of $2.6 million in 2011 and $7.1 million in 2010. Torstar has entered into forward foreign exchange contracts to sell $52.4 million U.S. dollars during 2012 at an average rate of $1.03, $30.0 million U.S. dollars in 2013 at an average rate of $1.02 and $5.0 million U.S. dollars in 2014 at an average rate of $1.05. These 2012, 2013 and 2014 forward foreign exchange contracts had a $0.4 million favourable fair value at December 31, 2011. These U.S. dollar contracts are designated as revenue hedges for accounting purposes and any resulting gains or losses are recognized in Book Publishing Segment revenues as realized.

The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. Further details are contained in Note 13 of the consolidated financial statements.

Torstar is also exposed to foreign exchange fluctuations on the translation of foreign currency denominated assets and liabilities. Foreign exchange gains or losses on the translation of foreign currency (primarily U.S. dollar) denominated assets and liabilities held by Torstar's Canadian operations are reported in the consolidated statement of income. Foreign exchange gains or losses on the translation of foreign currency (including U.S. dollars) denominated assets and liabilities of Torstar's foreign operations are reported through other comprehensive income.

In order to offset the exchange risk on its balance sheet from U.S. dollar denominated assets, Torstar maintains a certain level of U.S. dollar denominated debt. As most of the foreign exchange gains or losses on those U.S. dollar denominated assets is reported through other comprehensive income, Torstar, effective January 1, 2011, has designated $80.0 million of its U.S. dollar denominated debt as a hedge against its net investment in the Book Publishing businesses that have the U.S. dollar as their functional currency. The foreign exchange gain or loss on the translation of U.S. dollar denominated debt in excess of $80.0 million is reported in the consolidated statement of income.

Interest Rates

Torstar has long-term debt in the form of bankers' acceptances issued under the long-term bank credit facility. Torstar issues debt in both Canadian and U.S. dollars. Torstar issues bankers' acceptances at floating rates.

Torstar's general practice has been to have approximately one half of its debt at floating interest rates but the exact split will vary from time to time. As at December 31, 2011, approximately 40% of Torstar's long-term debt was at fixed interest rates as a result of the use of interest rate swap agreements.

In 2006, Torstar entered into interest rate swap agreements to fix the rate of interest on $250 million of Canadian dollar borrowings at 4.3% (plus the applicable interest rate spread based on Torstar's long-term credit rating) through September 2011. These swap agreements were settled at a cost of $3.8 million in the first quarter of 2011 in anticipation of the April 2011 receipt of the funds from the completion of the CTV sale.

In 2008, Torstar entered into interest rate swap agreements that fix the interest rate on U.S. $80 million of borrowings at approximately 4.2% (plus the applicable interest rate spread based on Torstar's long-term credit rating) for seven years ending May 2015. These swap agreements, which have been designated as cash flow hedges, had a fair value of $8.8 million unfavourable to Torstar at December 31, 2011.

Torstar mitigates its exposure to credit related losses in the event of non-performance by counterparties to the interest rate swaps by accepting only major financial institutions with high credit ratings as counterparties. Further details are contained in Note 12 of the consolidated financial statements.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

Torstar has several registered defined benefit pension plans which provide pension benefits to its employees in Canada and the U.S. and an unregistered, unfunded defined benefit pension plan that provides pension benefits to eligible senior management executives of Torstar. In addition, Torstar has capital accumulation (defined contribution) plans in Canada, the U.S. and certain of Harlequin's overseas operations. Torstar also has a post employment benefits plan that provides health and life insurance benefits to certain grandfathered employees, primarily in the newspaper operations.

Torstar had the following defined benefit net obligations as at December 31:

($000's)	2011	2010
Registered pension plans	$184,571	$133,194
Unregistered pension plan	22,266	23,158
Post employment benefits plan	56,039	51,416
	$262,876	$207,768

Torstar recognized the following expense in net income related to the defined benefit obligations:

($000's)	2011	2010
Registered pension plans	$9,500	$8,479
Unregistered pension plan	2,018	1,700
Post employment benefits plan	3,048	3,059
	$14,566	$13,238

Funding requirements are determined based on actuarial valuations that are completed at the frequency required under the applicable (primarily Ontario provincial) pension legislation which can range from annually to once every three years.

Actuarial reports for the most significant group of Torstar's registered defined benefit pension plans (in terms of assets and obligations) were completed as of December 31, 2010. Based on these reports, Torstar's 2011 funding obligation for its registered defined benefit pension plans was $46.4 million, up significantly from $16.8 million in 2010. Torstar will be required to prepare another set of actuarial reports as of December 31, 2011 to determine the 2012 funding requirements. Based on current market conditions, Torstar has estimated that the required funding in 2012 for these pension plans will be in the range of $65.0 - $70.0 million.

The unregistered pension plan is unfunded but is supported by an outstanding letter of credit of $25.2 million as at December 31, 2011. Torstar only funds the unregistered pension plan when a member of the plan has retired or has left the company and is of retirement age. Payments of $2.4 million were made in 2011 and $0.4 million in 2010. The health and life insurance post employment benefits plan is being funded as payments are made on behalf of the retirees. Payments of $2.3 million were made in both 2011 and 2010.

The cost and obligations of pensions and post employment benefits earned by employees is calculated annually by independent actuaries using the projected unit credit method prorated on service and management's best estimate of assumptions for the discount rate used to measure obligations, the expected long-term rate of return on pension plan assets for funded plans, salary increases, employee turnover, retirement ages of employees, mortality rates and expected health care costs. The most significant assumptions are the discount rate and the expected long-term rate of return on pension plan assets. On an interim basis, management estimates the changes in the actuarial gains and losses. These estimates are adjusted to actual when the annual calculations are completed by the independent actuaries.

The significant assumptions made by Torstar's management in 2011 and 2010 were:

	2011	2010
To determine the benefit obligation at the end of the year:		
Discount rate	4.3% - 4.4%	4.7% - 5.1%
Rate of future compensation increase	3.0% - 4.0%	3.0% - 4.0%
To determine the pension benefit expense for the year:		
Discount rate	4.7% - 5.1%	5.5% - 5.8%
Rate of future compensation increase	3.0% - 4.0%	3.0% - 4.0%
Expected long-term rate of return on pension plan assets	6.75%	7.0%
	2012	
To determine the pension benefit expense for the following year:		
Discount rate	4.3% - 4.4%	
Rate of future compensation increase	3.0% - 4.0%	
Expected long-term rate of return on pension plan assets	6.50%	

The discount rates 4.3 % - 4.4% were the yields at December 31, 2011 on high quality Canadian corporate bonds with maturities that match the expected maturity of the pension obligations (as prescribed by the Canadian Institute of Chartered Accountants ("CICA"). The selection of a discount rate that was one percent higher (holding all other assumptions constant) would have resulted in a decrease in the total pension plan obligation at December 31, 2011 of $110.1 million and a decrease in the 2011 expense of $0.7 million. A discount rate that was one percent lower would have increased the total pension plan obligation at December 31, 2011 by $125.8 million and decreased the 2011 expense by $0.1 million.

Management has estimated the expected long-term rate of return on pension plan assets to be 6.75% based on the targeted mix of investments held by Torstar's pension plans. The long-term rate of return includes assumptions on inflation rates and expected real rates of return on cash, fixed income and equity investments. These various expected rates of return were then weighted to reflect the targeted mix of investments held by Torstar's pension plans. Management feels that a long-term rate of return expectation of 6.75% is reasonable and within the range used by other Canadian corporations. Holding all other assumptions constant, if the expected long-term rate of return on pension plan assets had been one percent higher (lower) the 2011 pension expense would have been approximately $7.1 million lower (higher).

Management has estimated the rate of future compensation increases to be between 3.0% and 4.0%. This rate includes an anticipated level of inflationary increases as well as merit increases. Management has considered both historical trends and expectations for the future. Recent compensation increases have been lower than this range given current market conditions but management believes the range reflects an appropriate longer-term view.

For the post employment benefits plan that provides health and life insurance benefits to certain grandfathered employees, the key assumptions are the discount rate and the health care cost trends. The discount rate used is the same as the prescribed rate for the defined benefit pension obligation. For health care costs, the estimated trend was for an 8.0% increase for the 2011 expense. For 2012, health care costs are estimated to increase by 7.5% with a 0.5% decrease each year until 2017. If the estimated increase in health care costs was one percent higher the obligation at December 31, 2011 would be approximately $2.0 million higher. If the estimated increase in health care costs was one percent lower the obligation at December 31, 2011 would be approximately $1.7 million lower. The impact on the 2011 expense would have been less than $0.3 million.

Due to the extensive use of estimates in the benefit calculations, actuarial gains and losses arise over time as discount rates change, when actual return performance differs from the estimated return and as other assumption estimates change. The most significant actuarial gains and losses arise from differences in the actual returns earned on pension plan assets as compared to the expected long-term returns and from the impact of changes in

the discount rates on the plan obligations. Torstar recognizes these actuarial gains and losses as realized through other comprehensive income. Actuarial losses of $91.5 million were recognized through other comprehensive income in 2011 and $27.8 million in 2010.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of Torstar's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets, and liabilities and the disclosure of contingent liabilities, at the end of the reporting period.

Management uses estimates when accounting for certain items such as revenues, allowance for doubtful accounts, useful lives of capital assets, asset impairments, provisions, share-based compensation plans, employee benefit plans, deferred income taxes and goodwill impairment. Estimates are also made by management when recording the fair value of assets acquired and liabilities assumed in a business combination.

Estimates are based on a number of factors, including historical experience, current events and other assumptions that management believes are reasonable under the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results could differ. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The more significant estimates and judgements made by management are described below.

Classification of investments as portfolio investments, associated businesses, joint ventures and subsidiaries

Classification of investments requires judgement on whether Torstar controls, has joint control or significant influence over the strategic financial and operating decisions relating to the activity of the investee. Joint control is the contractually agreed sharing of control over the financial and operating policy decisions of the investee. It exists only when the decisions require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not represent control or joint control over those decisions. If an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

In assessing the level of control or influence that Torstar has over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements.

Black Press has been classified as an associated business based on management's judgement that Torstar has, based on rights to board representation and other provisions in the shareholder agreement, significant influence despite owning only 19.35% of the voting rights.

Book revenue provisions

Revenue from the sale of books is recorded net of provisions for estimated returns and direct-to-consumer bad debts (book revenue provisions). Retail print books are sold with a right of return. The retail returns provision is estimated based primarily on point-of-sale information, returns patterns and historical sales performance for the type of book and the author. Direct-to-consumer books are shipped with no obligation to the customer who may return the books or cancel their subscription at any time. The direct-to-consumer book revenue provision recognizes that not all books shipped will be purchased by the customer. Direct-to-consumer book revenue provisions are made at the time of shipment for the anticipated physical return of the books or a non-payment for the shipment. The direct-to-consumer book revenue provisions are estimated based on historical payment rates for the type of book as well as how long the customer has been a subscriber.

The impact of the variance between the original estimate for returns and direct-to-consumer bad debts and the actual experience is reported in a period subsequent to the original sale. This can have either a positive (if the actual experience is better than estimated) or negative (if the actual experience is worse) impact on reported results. This subsequent impact has historically been more significant for the retail returns provisions than the direct-to-consumer book revenue provisions.

At December 31, 2011, the book revenue provisions deducted from accounts receivable on the consolidated balance sheets was $88.4 million ($109.0 million in 2010). A one percent change in the average net sale rate used in calculating the global retail returns provision on sales from July to December 2011 would have resulted in a $3.3 million change in reported 2011 revenue.

Employee benefits

The accrued benefit asset or liability and the related cost of defined benefit pension plans and other post employment benefits earned by employees is determined each year by independent actuaries based on several assumptions.

The actuarial valuation uses management's assumptions for the discount rate, expected long-term rate of return on pension plan assets, rate of compensation increase, trends in healthcare costs and expected average remaining years of service of employees. Management applies judgement in the selection of these estimates, based on regular reviews of historical investment returns, salary increases, health care costs and demographic employee data. The most significant assumptions are the discount rate and the expected long-term rate of return on pension plan assets.

The discount rate used to determine the present value of the future cash flows that are expected to be needed to settle employee benefit obligations is based on the yield on long-term, high-quality corporate bonds, with maturities matching the estimated cash flows from the benefit plan. A lower discount rate would result in a higher employee benefit obligation.

The expected long-term rate of return is a weighted average of estimated long-term returns on each of the major pension plan asset categories in the Company's pension funds. A lower expected rate would result in a lower fair value of the pension plan assets and a higher employee benefit obligation.

Management's current estimates, along with a sensitivity analysis of changes in these estimates on both the benefit obligation and the benefit expense are further discussed under "Employee Future Benefit Obligations" in this MD&A and are disclosed in Note 17 of the consolidated financial statements.

Impairment of non-financial assets

At each reporting date, Torstar is required to assess its intangible assets and goodwill for potential indicators of impairment such as an adverse change in business climate that may indicate that these assets may be impaired. If any such indication exists, Torstar shall estimate the recoverable amount of the asset or cash-generating unit and compare it to the carrying value. In addition, irrespective of whether there is any indication of impairment, Torstar is required to test intangible assets with an indefinite useful life and goodwill for impairment at least annually.

For intangible assets other than goodwill, Torstar is also required to assess at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

Torstar completes its annual testing during the fourth quarter each year.

The test for impairment for either an intangible asset or goodwill is to compare the recoverable amount of the asset or cash-generating unit to the carrying value. The recoverable amount is the greater of fair value less costs to sell and value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets (such as goodwill). If this is the case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

In calculating the recoverable amount, management is required to make several assumptions including but not limited to royalty rates, expected future revenues, expected future cash flows and discount rates. Torstar's assumptions are influenced by current market conditions and levels of competition both of which may affect expected revenues. Expected cash flows may be further affected by changes in operating costs beyond what Torstar is currently anticipating. Torstar has made certain assumptions for the discount and terminal growth rates

to reflect possible variations in the cash flows; however, the risk premiums expected by market participants related to uncertainties about the industry, specific reporting units or specific intangible assets may differ or change quickly depending on economic conditions and other events. Changes in any of these assumptions could have a significant impact on the fair value of the reporting unit or the intangible asset and the results of the related impairment testing.

Torstar has completed its annual impairment testing of goodwill and intangible assets for fiscal 2011 and 2010. There was no impairment loss or reversals of impairment loss recorded as a result of the testing.

On January 1, 2010, on the transition to IFRS, the Company completed its impairment testing of goodwill and non-amortizable intangible assets. There was no impairment loss required to be recorded on the transition date. The Company also assessed for any indicators that previous impairment losses had decreased. As certain businesses had improved results and outlook, $0.5 million of previously recorded impairment losses on non-amortizable intangible assets was reversed.

Taxes

The Company is subject to income taxes in Canada and foreign jurisdictions. Significant judgement is required in determining the world-wide provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Management uses judgement in interpreting tax laws and determining the appropriate rates and amounts in recording current and deferred taxes, giving consideration to timing and probability. Actual income taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

Deferred tax is provided using the liability method for temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are measured using substantively enacted tax rates and laws at the reporting date that are expected to be in effect when the temporary differences are expected to reverse.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that sufficient taxable profit will be available against which they can be utilized. When assessing the probability of taxable profit being available, management primarily considers prior years' results, forecasted future results and non-recurring items. As such, the assessment of the Company's ability to utilize tax losses carried forward is to a large extent judgement-based. If the future taxable results of the Company differ significantly from those expected, the Company would be required to increase or decrease the carrying value of the deferred tax assets with a potentially material impact on the Company's consolidated statement of financial position and consolidated statement of comprehensive income. The carrying amount of deferred tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to utilize all or part of the deferred tax assets. Unrecognized deferred tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable profits to allow all or part of the asset to be recovered.

More information on Torstar's income taxes is provided in Note 5 of the consolidated financial statements.

Fair value measurement of contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination and is subsequently remeasured to fair value at each reporting date. The determination of the fair value is primarily based on revenue levels estimated to be realized by the acquired businesses for specified periods following the acquisition. The key assumptions take into consideration the probability of meeting each performance target and the discount rate. Depending on the absolute amount of the contingent consideration and the time until it becomes payable, the actual payment could differ significantly from the original estimate.

Provisions

Provisions are recognized when (i) the Company has a present legal or constructive obligation based on past events; (ii) it is probable that an outflow of economic resources will be required to settle the obligation; and (iii) the amount can be reasonably estimated. Provisions are measured at the present value of the estimated expenditure expected to settle the obligation. This present value, if material, is determined using the current market assessments of the time value of money and risks specific to the obligation. The obligation increases as a result of the passage of time and this increase is recorded as interest expense.

FUTURE CHANGES IN ACCOUNTING POLICIES

In October 2010, the IASB amended IFRS 7 *Financial Instruments: Disclosures* to enhance the disclosure about transfers of financial assets. This improvement is to assist users in understanding the possible effects of any risks that remain in an entity after the asset has been transferred. In addition, if disproportionate amounts are transferred close to the year-end, additional disclosures would be required. The effective date of the amendment is for annual periods beginning on or after July 1, 2011. Torstar has determined that the adoption of this amendment will not have a material impact on the consolidated financial statements.

In December 2010, the IASB amended IAS 12 *Income Taxes* for the recovery of underlying assets and the impact on deferred taxes. The amendments provide a solution to the problem of assessing whether recovery would be through use or through sale when the asset is measured at fair value under IAS 40 *Investment Property*, by adding the presumption that the recovery would normally be through sale. The amendment also incorporates the remaining guidance in SIC-21 *Income Taxes – Recovery of Revalued Non-depreciable Assets,* as SIC-21 has been withdrawn. The effective date of the amendment is for annual periods beginning on or after January 1, 2012. Torstar has determined that the adoption of this amendment will not have a material impact on the consolidated financial statements.

In November 2009, the IASB issued IFRS 9 *Financial Instruments: Classification and Measurement*, which covers classification and measurement as the first part of its project to replace IAS 39. In October 2010, the Board also incorporated new accounting requirements for liabilities. The standard introduces new requirements for measurement and eliminates the current classification of loans and receivables, available-for-sale and held-to-maturity, currently in IAS 39. There are new requirements for the accounting of financial liabilities as well as a carryover of requirements from IAS 39. Torstar does not anticipate early adoption and will adopt the standard on the effective date of January 1, 2015. Torstar is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

In May 2011, the IASB issued the following standards which are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Torstar is in the process of reviewing the standards to determine the impact on the consolidated financial statements:

- IFRS 10 *Consolidated Financial Statements* requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC -12 *Consolidations - Special Purpose Entities* and replaces parts of IAS 27 *Consolidated and Separate Financial Statements*.

- IFRS 11 *Joint Arrangements* requires a venturer to classify its interest in a joint arrangement as a joint operation or a joint venture. The standard eliminates the use of the proportionate consolidation method to account for joint ventures. Joint ventures will be accounted for using the equity method of accounting while for a joint operation, the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. IFRS 11 supersedes SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and IAS 31 *Joint Ventures*.

- IFRS 12 *Disclosure of Interests in Other Entities* establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. IFRS

12 replaces the previous requirements included in IAS 27 *Consolidated and Separate Financial Statements,* IAS 31 *Joint Ventures* and IAS 28 *Investments in Associates*.

- IFRS 13 *Fair Value Measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. IFRS 13 defines fair value and establishes disclosures about fair value measurement.

- As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 *Separate Financial Statements* is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. Torstar does not present separate financial statements.

- As a consequence of the new IFRS 11 and IFRS 12, IAS 28 *Investments in Associates* has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

In June 2011, the IASB amended the following standards, which Torstar is in the process of reviewing to determine the impact on the consolidated financial statements:

- The IASB amended IAS 1 *Presentation of Financial Statements* by revising how certain items are presented in other comprehensive income ("OCI"). Items within OCI that may be reclassified to profit and loss will be separated from items that will not. The standard is effective for financial years beginning on or after July 1, 2012 with early adoption permitted. The amendment affects presentation only and has no impact on Torstar's financial position or performance.

- The IASB made a number of amendments to IAS 19 *Employee Benefits*, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI, past service costs to be recognized immediately, whether vested or not as well as enhanced disclosures. The standard also requires that the discount rate used to determine the defined benefit obligation should also be used to calculate the expected return on plan assets by introducing a net interest approach, which replaces the expected return on plan assets and interest costs on the defined benefit obligation, with a single net interest component determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation. The standard is effective for financial years beginning on or after January 1, 2013 with early adoption permitted.

In December 2011, the IASB amended both IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures* by moving the disclosure requirements in IAS 32 to IFRS 7 and enhancing the disclosures about offsetting financial assets and liabilities. The effective date of the amendments is January 1, 2015. Earlier adoption is permitted but must be applied together with IFRS 9.

RISKS AND UNCERTAINTIES

Torstar is subject to a number of risks and uncertainties, including those set forth below. A risk is the possibility that an event might happen in the future that could have a negative effect on the financial condition, financial performance or business of Torstar. The actual effect of any event on Torstar's business could be materially different from what is anticipated. This description of risks does not include all possible risks.

Media Segment – Revenue Risks

Revenue from Torstar's Media Segment accounted for approximately 70% of Torstar's consolidated operating revenue in the year ended December 31, 2011. Revenue in the Media Segment is primarily dependent upon the sale of advertising with some of the print products also generating circulation revenue. Advertising revenue includes in-paper advertising, digital advertising, inserts/flyers and specialty publications.

Competition

Competition for advertising and circulation revenue comes from free and paid local, regional and national newspapers, radio, broadcast and cable television, outdoor, direct mail, directories, websites, social media, applications for mobile devices, other communications and advertising media and online advertising networks and exchanges that operate in Torstar's markets. The competition is generally based on audience levels, composition

and demographics, price, service and advertising results. The extent and nature of such competition has intensified over the past few years as a result of the continued development of digital media alternatives and the fragmentation of audiences.

Websites, applications for mobile devices, social networking tools and other digital platforms that distribute news and other content continue to gain popularity. This shift by distributors and end users of content to digital technologies may accelerate due to economic conditions and a desire for lower-cost alternatives. As a result, audience attention may decline and advertising spending may continue to shift from traditional media forms to digital media. Torstar expects that advertisers will continue to allocate greater portions of their budgets to digital media. This shift has intensified competition for advertising in traditional media and has contributed to and may continue to contribute to a decline in print advertising revenue.

In response to this shift to digital media, Torstar has been making significant investments in its digital businesses over the past several years.

The digital businesses in Torstar's Media Segment operate in a rapidly evolving and highly dynamic competitive environment. Rapid changes in technology can result in consumer demand moving in unanticipated directions. The increasing number of digital media options available on the internet, through mobile devices and through social networking tools is significantly expanding consumer choice and shifting audience preferences.

Torstar's existing and potential future competitors in the digital businesses range from start up operations with low cost structures to global players that may have access to greater operational, financial and other resources than Torstar. In order to succeed, Torstar will need to be able to successfully exploit new and existing technologies, distinguish its products and services from those of its competitors and continue to develop or adapt to new distribution methods that provide competitive user experiences.

Economic conditions

Advertising revenue in Torstar's newspapers and digital properties is affected by a variety of factors, including prevailing economic conditions and the level of consumer confidence. Adverse economic conditions generally, and downturns in the Ontario economy specifically, have a negative impact on the advertising industry and on Torstar's operations. Local downturns in the general economic environment may cause Torstar's customers to reduce the amounts they spend on advertising which could result in a decrease in demand for advertising and lower advertising rates.

Torstar's advertising revenue is also dependent on the prospects of its advertising customers. A significant portion of Torstar's advertising revenue is derived from retail, real estate and automotive sector advertisers. Weakness in these sectors has had, and may continue to have, an adverse impact on Torstar's advertising revenues.

Content and readership

Print readership levels, in addition to generating circulation revenue, have traditionally been an important factor in the ability of a newspaper to generate advertising revenues. Changes in everyday lifestyle and technology have meant that people are choosing not to devote as much time to reading print newspapers as they once did. Offsetting this decline in print readership is an increase in online readership. While online readership appears to be an important factor in the ability of a newspaper to generate advertising revenue, it may have a negative impact on print circulation volumes and revenues and also on readership.

Torstar has not committed to a pay model for its online readership. Torstar's ability to build a paid subscriber base for its digital news content will depend on market acceptance, consumer habits, the timely development of an adequate online infrastructure, practices of delivery platforms and other factors. Torstar also faces the risk that although implementing a pay model could increase revenue, it could also reduce online readership levels and page views and have a negative impact on advertising revenues.

Torstar's reputation for quality journalism and content is an important factor in maintaining readership levels. Torstar strives to provide content in print and online that is perceived as reliable, relevant and entertaining by readers and advertisers. Public preferences and tastes, general economic conditions, the newsworthiness of current events and

the availability of alternative sources of content, among other intangible factors, may also contribute to the fluctuation in readership levels, and accordingly, limit the ability of Torstar to generate advertising and circulation revenue.

With the increase in alternative digital content providers, Torstar faces the risk that it may not be able to increase its online traffic sufficiently and retain a base of frequent visitors to its websites and applications. If traffic levels decline or stagnate, Torstar may not be able to create sufficient advertiser interest in its digital businesses and to maintain or increase the advertising rates of its advertising inventory.

Maintenance of satisfactory circulation, readership and online traffic levels attractive to advertisers cannot be guaranteed.

Product Revenue
TMGTV's product business is dependent on Torstar's ability to continue to source and market products that have consumer appeal. There is no guarantee that Torstar will be able to do so.

Book Publishing Segment – Revenue Risks
Revenue from Torstar's Book Publishing Segment accounted for approximately 30% of Torstar's consolidated operating revenue in the year ended December 31, 2011. Book Publishing revenue is generated from Harlequin. Harlequin sells books through the retail channel, in stores and online, and directly to the consumer through its direct mail businesses and from its internet sites (in North America – Harlequin.com).

Competition
Harlequin competes not only with other book publishers but also with other providers of entertainment including television, music, movies, games and magazines. These global markets are very competitive and this is not expected to change in the future. More recently, online retailers have also entered into the book publishing business creating additional competition.

Economic conditions
Historically, Harlequin's book publishing revenue has not been as sensitive to economic conditions as has advertising revenue for the Media Segment. While consumers generally reduce spending during economic downturns, book sales have tended to be relatively more stable. There is no assurance that this will continue to be the case in the future.

Harlequin has also benefited from geographic diversification to lessen the impact of changes in the general economic performance in any one individual country, although it does have significant exposure to the economic conditions in the U.S. market. In 2011, 5% of Harlequin's revenues were derived from Canada, 49% from the U.S., and 46% from all other markets (the largest of which were Japan, Germany, the U.K., Nordic, Australia and France).

Authors
Harlequin's single title revenues are dependent on the popularity of its authors. Harlequin enters into contracts with authors for the right to publish an author's book or a certain number of books. There is no guarantee that an author will enter into a new contract for future books and from time to time a popular author will decide to publish future books with another publisher. There is also no guarantee that an author will continue to be popular with readers or that future titles will be successful. In addition, as the digital book market grows, it is increasingly possible for authors to self-publish.

Price
In recent years, the book publishing industry, in particular in North America, has seen increased price competition among book retailers in both printed and digital formats, including self-publishing. Harlequin primarily publishes paperback books which, to date, have not experienced the same pricing pressures as hardcover books, however, there is no guarantee that this will continue.

Digital market
As a result of the increasing popularity of digital formats, a number of digital-only publishers and other digital distribution models have emerged. These new competitors have very low cost structures and may be able to attract quality authors and take market share from the traditional publishers, including Harlequin.

Within the global digital marketplace there is the risk that online retailer control could become increasingly concentrated. In the U.S. market, over 80% of Harlequin's 2011 digital sales were with two online retailers. The impact of such concentration is currently uncertain but it could have a negative impact on Harlequin's sales volumes, pricing and costs.

The low cost of digitization has also led to a proliferation in the number of digital titles available and increased competition. While Harlequin has been digitizing its backlist for a number of years and now has more than 14,000 digital titles available for sale, there is no assurance that the company will be able to successfully compete against new or potential competitors.

Retail print market
The significant growth of the digital book market has resulted in a contraction of the retail print market particularly, to date, in North America. Distribution for the retail print market is also relatively concentrated with a small number of wholesalers and retailers in any market. These factors increase the risk of bankruptcy of a major retail customer or a wholesaler which could disrupt the distribution channels, increase competition for shelf-space and/or increase costs.

Books sold through the retail print channel are sold to wholesalers and retailers with a right of return leaving the ultimate sales risk with Harlequin. In order to reflect the ability of the retailers to return books that they do not sell, a provision for returns is made when revenue is recognized. (See additional information in the Critical Accounting Policies and Estimates section of this MD&A.) The provision is adjusted as actual returns are received over time. The difference between the initial estimate of returns and the actual returns realized has an impact on Harlequin's results during subsequent periods as the returns are received. This impact could be significant.

Direct-to-consumer market
A key revenue risk for Harlequin's direct-to-consumer business is being able to maintain its customer base, both by retaining existing customers and acquiring new ones. A significant source of new customers has historically been through direct mail offers. For more than a decade the direct marketing industry has faced considerable challenges from a lack of available mailing lists, regulation and competitive pressure from alternate channels. This has made the acquisition of new customers through direct mail offers difficult. Harlequin has responded to these challenges in a number of ways including new, innovative offers and the use of its internet site, Harlequin.com, to attract new customers. Despite this, the customer base has declined over time and is expected to continue to do so in the future.

Labour Disruptions
Torstar has a number of collective agreements at its newspaper operations that have historically tied annual wage increases to the cost of living. The newspapers face the risk associated with future labour negotiations and the potential for business interruption should a strike, lockout or other labour disruption occur. Such a disruption may lead to lost revenues and could have an adverse effect on Torstar's business. The level of unionization at the newspaper operations could impact the ability of Torstar to respond quickly to downturns in the economy that negatively impact revenue.

The Toronto Star has approximately 795 staff covered by four collective agreements. The largest agreement covers approximately 445 employees at One Yonge Street, Toronto. This collective agreement will expire at the end of December 2012. There are three agreements covering approximately 350 employees at the Toronto Star's Vaughan Press Center. One agreement covering approximately 310 employees will expire in December 2014. Two other agreements, covering approximately 40 employees expired at the end of December 2011 and negotiations have started.

Sing Tao has two collective agreements covering approximately 125 employees that will expire at the end of 2012. Metro's Toronto operations have a collective agreement covering approximately 65 employees that will expire in March of 2013.

Metroland Media Group has a total of 21 collective agreements covering approximately 775 employees. There are 11 collective agreements covering approximately 320 employees within the community newspapers. Two agreements covering approximately 20 employees expired at the end of December 2011. Negotiations are not yet scheduled. Two agreements covering approximately 30 employees will expire in August 2012, six agreements covering approximately 240 employees will expire in December 2013 and one covering approximately 30 employees will expire in December 2014.

At the Metroland Media Group daily newspapers, there are ten agreements covering approximately 455 employees. Four agreements covering approximately 145 employees at the Waterloo Region Record expired at the end of 2010, two agreements covering approximately 75 employees at the Hamilton Spectator expired in May 2011, one agreement covering approximately 10 employees at the Guelph Mercury expired in May 2011 and one agreement covering approximately 75 employees at the Hamilton Spectator expired at the end of December 2011. Negotiations have begun for all of these agreements. The remaining two agreements covering approximately 150 employees at the Hamilton Spectator will expire at the end of 2012.

The Book Publishing Segment does not have any collective agreements in place.

Newsprint Costs
Newsprint is the single largest raw material expense for Torstar's Media Segment and, after salaries and benefits expense, represents the most significant operating cost for this Segment. Newsprint is priced as a commodity with the price varying widely from time to time. In 2011, the price that Torstar paid for newsprint was on average equal to the price paid in 2010. Torstar's newspapers consume approximately 110,000 tonnes of newsprint each year.

The pulp and paper industry has faced difficulties over the past few years with some newsprint suppliers experiencing financial instability. Should there be a reduction in the number of suppliers, Torstar could face a risk in supply of newsprint and/or increased prices. Torstar primarily sources newsprint from two main suppliers, one of whom is currently restructuring under creditor protection. Pursuant to arrangements with these two suppliers, Torstar has fixed the price of the majority of its newsprint requirements for 2012 at prices that are similar to those realized in 2011. There can be no assurance that Torstar will be able to extend these arrangements in future years or that Torstar's newspapers will not be exposed in the future to volatile or increased newsprint costs which could have a adverse effect on Torstar's financial performance.

Cost Structure
The newspaper business is characterized by a relatively high fixed cost structure. As a result it may be very difficult to significantly reduce costs in a period of declining revenues. Accordingly, a relatively small change in revenue could have a disproportionate effect on Torstar's results from operations.

Foreign Exchange
As an international publisher, approximately 95% of Harlequin's revenues (approximately 28% of Torstar's operating revenues) are earned in currencies other than the Canadian dollar. As a result, Harlequin's revenues and operating earnings are affected by changes in foreign exchange rates relative to the Canadian dollar. The most significant risk is from changes in the U.S.$/Cdn.$ exchange rate. Harlequin also has exposure to many other currencies, the most significant of which are the Euro, Yen and British Pound.

To offset some of this exposure, Torstar regularly enters into forward foreign exchange contracts to sell U.S. dollars. From time to time, Torstar may also enter into forward foreign exchange contracts to hedge other currencies (Euro, Yen, and British Pound). (See additional information on foreign exchange risks in the Financial Instruments section of this MD&A and in Note 13 to Torstar's consolidated financial statements.)

Credit Risk
In the normal course of business, Torstar is exposed to credit risk from its accounts receivable from customers. The carrying amount for accounts receivable are net of applicable book revenue provisions and allowances for

doubtful accounts. The allowances for doubtful accounts are estimated based on past experience, specific risks associated with the customer and other relevant information.

Under a billing and collection agreement with a third party, the Book Publishing Segment has a net receivable of $29.1 million (U.S. $28.6 million) at December 31, 2011 related to its U.S. sales. To date, the credit risk associated with this balance has been mitigated by the financial stability and payment history of the third party.

Restrictions Imposed by Existing Credit Facilities, Debt Financing and Availability of Capital
The agreements governing certain indebtedness of Torstar impose a number of restrictions on Torstar. These include restriction on the payment of dividends other than on a basis consistent with Torstar's current dividend policy (which does not include extraordinary dividends). The agreements also require compliance with certain financial covenants in order for Torstar's debt to remain outstanding and impose restrictions on Torstar in circumstances where Torstar is in default pursuant to its credit facilities. These covenants include the requirement not to exceed a maximum level of debt compared to cash flow and a minimum interest coverage test. In addition, Torstar cannot experience a material adverse change in its business. Failure to comply with these restrictions and financial covenants could trigger early payment obligations and could have a material adverse effect on Torstar. A full description of these restrictions and financial covenants can be found in the original loan agreement and recent amendments thereto filed on www.sedar.com.

Pension Fund Obligations
Relative to its size, and when compared to other companies, Torstar has large pension liabilities, funding requirements and costs. In an effort to manage ongoing pension costs and funding requirements, management has purposefully chosen investments which will not always change in value in a similar manner as pension liabilities in periods of changing long-term interest rates. Similarly, pension fund returns will not always meet the assumptions used for valuation purposes. This may be particularly true in times of poor economic performance. This investment policy introduces a significant level of volatility into Torstar's future pension funding requirements and the funded status of its pension plans.

At December 31, 2011 Torstar had a net liability of $184.6 million for its registered defined benefit pension plans. The most significant group of Torstar's registered defined benefit pension plans (in terms of assets and obligations) completed the preparation of actuarial reports as of December 31, 2010 during 2011. The result of the reports was that Torstar's funding for these registered defined benefit pension plans was $46.4 million in 2011. Torstar will be required to prepare another set of actuarial reports as of December 31, 2011 and the results of those reports will determine the funding required for 2012. Based on current market conditions Torstar anticipates that the required funding in 2012 will be in the range of $65.0 - $70.0 million.

In addition to the registered defined benefit pension plans, Torstar also has an unregistered, unfunded defined benefit pension plan that provides pension benefits to eligible senior management executives of Torstar (liability of $22.3 million at December 31, 2011) and a post employment benefits plan that provides health and life insurance benefits to certain grandfathered employees, primarily in the newspaper operations (liability of $56.0 million at December 31, 2011). These plans are being funded as payments are made.

Impairment Tests
Under IFRS, Torstar must regularly test the carrying value of its long-lived assets, intangible assets and goodwill for impairment in value. When an impairment test results in an asset or goodwill devaluation, it is recorded as a non-cash charge that reduces Torstar's reported earnings.

Reliance on Printing Operations
The newspaper operations of Torstar place considerable reliance on the functioning of its printing operations for the printing of their various publications, with particular emphasis placed on the Toronto Star's Vaughan Press Centre, which primarily supports the Toronto Star's printing needs. In the event that any of the print facilities experiences a shutdown or disruption, Torstar will attempt to mitigate potential damage by shifting the printing to its remaining facilities or outsourcing such work to a third party commercial printer. However, given Torstar's reliance on such facilities, such a shutdown or disruption could result in Torstar being unable to print some publications, and consequently could have an adverse effect.

Torstar also relies on the adequacy of third-party printing arrangements for its book publishing operations in North America and worldwide. In the event any existing arrangements change or cease to be available, Torstar would attempt to mitigate the situation by using an alternative supplier or printing location. However, there can be no assurance that such an event would not have an adverse effect on Torstar.

Reliance on Technology and Information Systems

Torstar places considerable reliance upon information technology systems including those of third party service providers. In the event that these systems are subject to disruptions or failures resulting from system failures, loss of power, viruses, unauthorized access, human error, acts of sabotage or other similar events, it could have an adverse effect on Torstar's operations and revenues.

The media industry has experienced and is continuing to experience rapid and significant technological changes. In order to be able to compete, Torstar needs to be able to manage the changes in new technologies and be able to acquire, develop or integrate them. Torstar's ability to successfully manage the implementation of new technologies could have an adverse effect on Torstar's ability to successfully compete in the future.

Business Development and Acquisition Integration

Torstar has in the past, and may in the future, seek to make opportunistic or strategic acquisitions to expand its existing businesses or to participate in a new business. There is no guarantee that any such opportunities will be available for Torstar or that they will be available at an appropriate price. In addition, Torstar may not be successful in integrating new businesses, could incur unforeseen costs in connection with the expansion or acquisition of a business or may not fully realize anticipated synergies, any of which could have an adverse effect on financial performance.

Interest Rates

Torstar has long-term debt in the form of bankers' acceptances issued under its long-term debt facility. This long-term debt is issued at market rates plus a spread specific to Torstar. In addition to the exposure to changes in Torstar's credit rating or businesses that would impact the specific spread, Torstar is exposed to fluctuations in interest rates on its bankers' acceptances that are issued at floating rates. Torstar manages this risk through the use of interest rate swap contracts to fix the interest rate on a portion of its outstanding debt. Torstar remains exposed to fluctuations in interest rates on the balance of its outstanding debt.

Availability of Insurance

Torstar has property and casualty insurance and directors' and officers' liability insurance in place to address certain material insurable risks. Torstar believes that such insurance coverage is similar to that which would be maintained by prudent owners of similar businesses and assets and that the coverage limits, exclusions and deductibles that are in effect are reasonable given the cost of procuring insurance. However, there is no assurance that such insurance will continue to be available on an economically feasible basis, that all events that could give rise to a loss or liability are insurable, or that the level of insurance coverage will be sufficient to cover each and every material loss or claim that may occur involving Torstar's operations or assets.

Litigation

Torstar is involved in various legal actions, primarily in the Media Segment, which arise in the ordinary course of business. These actions include the litigation as described under the heading "Legal Proceedings" in Torstar's most recent Annual Information Form. In particular, given the nature of Torstar's businesses, Torstar has had, and may have, litigation claims filed related to the publication of its editorial content, copyright or trademark infringement, privacy, personal injury, product liability, breach of contract, unfair competition or other legal claims. Although Torstar maintains insurance for many of these types of claims, there can be no assurance that insurance will be available for all such claims. In addition, there can be no assurance as to the outcome of any future litigation, proceedings or investigations or that the outcome will not be adverse to Torstar nor have a material impact on Torstar's results. In addition, Torstar could incur significant costs in investigating and defending such claims, even if ultimately found not to be liable.

Government Regulations

General

Torstar's businesses are subject to a variety of laws and regulations, including laws applicable generally to business and environmental, privacy, communications and e-commerce laws. Torstar may also be notified from time to time of additional laws and regulations which governmental organizations or others may claim should be applicable to certain of its businesses. If Torstar is required to alter its business practices as a result of any laws and regulations, revenue could decrease, costs could increase and/or certain of Torstar's businesses could otherwise be harmed. In addition, the costs and expenses associated with defending any actions related to such additional laws and regulations and any payments of related penalties, judgements or settlements could adversely impact certain of Torstar's businesses.

Environmental

Torstar is subject to a variety of environmental laws concerning, among other things, emissions to the air, water and sewer discharges, handling and disposal of wastes, recycling, the use of recycled materials, or otherwise relating to the protection of the environment. There have been considerable changes to environmental laws and regulations in recent years, and such laws and regulations are expected to continue to change. Compliance with new environmental laws and regulations may subject Torstar to significant costs and a failure to comply with present or future laws or regulations could have an adverse effect on Torstar. While Torstar does have an environmental policy and environmental committee in place to assist in monitoring compliance with environmental legislation, there can be no assurance that all environmental liabilities have been identified or that expenditures will not be required to meet future legislation.

E-Commerce, Privacy and Confidential Information

Laws relating to privacy, communications, data protection, e-commerce, direct marketing and digital advertising and use of public records have become more prevalent in recent years. Existing and proposed legislation and regulations, including changes to the manner in which such legislation and regulations are interpreted by courts in Canada, the United States and other jurisdictions, may impose limits on the collection and use of certain kinds of information. In addition, the costs of compliance and/or non-compliance with industry or legislative initiatives to address consumer protection concerns or other related issues such as copyright infringement, unsolicited commercial e-mail, cyber-crime and access could adversely impact certain of Torstar's businesses.

Torstar obtains and uses customers' confidential information primarily through its sales processes. The potential dissemination of such information to the wrong individuals could cause damage to Torstar's relationships with its customers and could result in legal actions.

Dependence on Key Personnel

Torstar is dependent to a large extent upon the continued services of its senior management team and other key employees including editorial, technical and sales personnel. There is intense competition for qualified managers and skilled employees and Torstar's failure to recruit, train and retain such employees could have an adverse effect on its business, financial condition or operating results.

Loss of Reputation

Torstar, its customers, shareholders and employees place considerable reliance on Torstar's good reputation. Torstar's ability to maintain its existing customer relationships and generate new customers depends greatly on the quality of its services, brand reputation and business continuity. The loss or tarnishing of the reputation of Torstar or any of its significant businesses through negative publicity or otherwise, whether true or not, could have an adverse impact on the business, operations or financial condition of Torstar.

Product Liability

Torstar may be exposed to potential liability in connection with the sale and promotion of products (including claims from purchasers, distributors, regulators and law enforcement) which could include claims for personal injury, wrongful death, damage to personal property, claims relating to misrepresentation of product features and benefits or violation of applicable laws. Although Torstar maintains insurance for many of these types of claims, there can be no assurance that insurance will be available for all such claims. In addition, there can be no assurance as to the outcome of any future litigation, proceedings or investigations or that the outcome will not be adverse to Torstar

nor have a material impact on Torstar's results. In addition, Torstar could incur significant costs in investigating and defending such claims, even if ultimately found not to be liable.

Intellectual Property Rights
Torstar places considerable importance on the protection of its intellectual property rights. On occasion, third parties may contest or infringe upon these rights and Torstar will endeavour to take appropriate action to address such matters. There can be no assurance that Torstar's actions will be adequate to prevent the infringement of Torstar's intellectual property rights, or protect Torstar against claims of infringement by third parties.

Control of Torstar by the Voting Trust
More than 98% of Torstar's Class A shares are held in a Voting Trust pursuant to a Voting Trust Agreement, which joins together seven groups of shareholders. Under the Voting Trust Agreement, each shareholder group is entitled to appoint a Voting Trustee. The Voting Trustees exercise various powers and rights, including among others the right to vote in the manner as determined by a majority of the Voting Trustees, all of the Class A shares of Torstar held by the members of the Voting Trust. The Class A shares are the only class of issued shares carrying the right to vote in all circumstances. Accordingly, the Voting Trust, through a single ballot, effectively elects the Torstar Board of Directors and controls the vote on any matters submitted to a vote of shareholders of Torstar.

ANNUAL INFORMATION – 3 YEAR SUMMARY

The following table presents selected key information for the past three years:

(in $000's – except for per share amounts)	2011	2010	2009[1]
Revenue	$1,548,757	$1,483,768	$1,451,259
Net income	$218,141	$210,729	$35,645
Net income attributable to equity shareholders	$217,721	$209,910	$35,645
Net income attributable to equity shareholders per Class A voting and Class B non-voting share			
Basic	$2.74	$2.65	$0.45
Diluted	$2.72	$2.64	$0.45
Average number of shares outstanding during the year (in 000's)			
Basic	79,400	79,074	78,964
Diluted	79,949	79,637	78,989
Cash dividends per Class A voting and Class B non-voting share	$0.4675	$0.37	$0.37
Total assets	$1,484,767	$1,536,385	$1,638,442
Total long-term debt	$196,191	$404,586	552,976

[1] The 2009 results have not been restated to IFRS and are as originally reported under Canadian generally accepted accounting principles.

Revenue has been relatively stable over the three year period. Digital revenues have grown over the three year period in both the Media and Book Publishing Segments. Print advertising in the Media Segment improved in 2010 over 2009 but then declined in 2011. Book Publishing revenues were negatively impacted by $33.2 million in 2010 and $7.7 million in 2011 from the impact of foreign exchange.

Over the three year period, significant labour cost savings have been realized in the Media Segment from restructuring initiatives. The provisions for the costs of these restructuring initiatives have had a negative impact on net income, generally in a period in advance of the cost savings being realized.

As the 2009 results have not been restated to IFRS, 2009 net income is not directly comparable to 2010. Under IFRS, expenses for employee future benefits and amortization and depreciation are significantly lower which

results in part of the year over year change. 2010 net income included a remeasurement gain of $115.5 million related to Torstar's investment in CTV and $3.5 million related to the acquisition of the remaining half of Harlequin's German publishing business that it had not previously held.

Net income in 2011 was positively impacted by a $74.6 million gain on the sale of Torstar's interest in CTV and a $19.0 million remeasurement gain related to Torstar's previously-held interest in Metro. 2011 also benefited from lower restructuring and other charges, lower interest and financing costs and a lower loss from associated businesses.

Total assets have been relatively stable over the three year period while long-term debt has been reduced by $356.8 million with cash from operations and the proceeds from the sale of Torstar's investment in CTV.

SUMMARY OF QUARTERLY RESULTS

The following table presents selected financial information for each of the eight most recently completed quarters:

(in $000's – except for per share amounts)	2011 Quarter Ended			
	Dec 31	Sept 30	June 30	March 31
Revenue	$425,336	$378,677	$393,322	$351,422
Net income	$64,572	$25,279	$112,902	$15,388
Net income attributable to equity shareholders	$64,283	$25,239	$112,727	$15,472
Net income attributable to equity shareholders per Class A voting and Class B non-voting share				
Basic	$0.81	$0.32	$1.42	$0.20
Diluted	$0.81	$0.32	$1.41	$0.19

(in $000's – except for per share amounts)	2010 Quarter Ended			
	Dec 31	Sept 30	June 30	March 31
Revenue	$417,530	$353,710	$377,561	$334,967
Net income	$36,633	$130,219	$27,325	$16,552
Net income attributable to equity shareholders	$36,299	$130,081	$27,069	$16,461
Net income attributable to equity shareholders per Class A voting and Class B non-voting share				
Basic	$0.46	$1.64	$0.34	$0.21
Diluted	$0.45	$1.63	$0.34	$0.21

The summary of quarterly results illustrates the cyclical nature of revenues and operating profit in the Media Segment. The fourth and second quarters are generally the strongest for the media businesses with the third quarter being the softest. Book Publishing Segment revenues will vary each quarter depending on the publishing schedule and the impact of foreign exchange rates.

The second quarter of 2011 included the $74.6 million gain on the sale of Torstar's interest in CTV and the fourth quarter included the $19.0 million remeasurement gain related to Torstar's previously-held interest in Metro. The second, third and fourth quarters of 2011 also benefited from lower interest and financing costs from the significantly lower debt levels. The third quarter of 2010 included the $115.5 million remeasurement gain related to Torstar's interest in CTV.

Restructuring and other charges have impacted the level of net income in several quarters. In 2011, the first, second, third and fourth quarters had restructuring and other charges of $0.4 million, $3.4 million, $2.0 million and

$13.7 million respectively. In 2010, the first, second, third and fourth quarters had restructuring and other charges of $8.5 million, $4.1 million, $2.5 million and $17.5 million respectively.

REVISED QUARTERLY RESULTS

During the process of completing the annual 2011 consolidated financial statements, Torstar determined that two adjustments were required to be made to the previously disclosed financial information for 2010 prepared in accordance with IFRS 1 and IAS 34. One of those adjustments also caused an adjustment to the previously disclosed 2011 quarterly financial results.

There was no operating profit, income tax or cash impact related to either of these adjustments. There was no impact on the 2010 audited financial statements issued under Canadian generally accepted accounting principles.

In the second quarter of 2010, Torstar completed the acquisition of the remaining half of Harlequin's German publishing business that it had not previously held. This transaction is treated as a step-acquisition under IFRS which required a remeasurement to the acquisition date fair value of the previously held interest. This resulted in a remeasurement gain of $3.5 million in the second quarter of 2010. There was no impact in any other quarter of 2010 or in 2011.

In the third quarter of 2010, Torstar entered into agreements to sell its interest in CTV. In the previously disclosed financial results for 2010 prepared in accordance with IFRS, Torstar classified the investment as held-for-sale and continued to record it at the carrying value that it had immediately prior to entering into the agreements to sell. Torstar has now determined that the investment should have been classified as an available-for-sale financial asset which, upon reclassification, should be adjusted to its fair value with the remeasurement gain reported through net income. Torstar has estimated the fair value of the investment to be $257.0 million in September 2010 which resulted in a remeasurement gain of $115.5 million in the third quarter of 2010. The change in carrying value in 2010 caused a reduction of $115.5 million in the gain that was previously reported on the sale of CTV in the second quarter of 2011. The revised second quarter 2011 gain is $74.6 million. The total gain recorded on the sale of CTV remains at $190.1 million

The following charts provide the revised IFRS consolidated net income by quarter for both 2011 and 2010.

	2011				
(in $000's)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Operating revenue	$351,422	$393,322	$378,677	$425,336	$1,548,757
Salaries and benefits	(122,240)	(128,545)	(127,613)	(132,685)	(511,083)
Other operating costs	(187,503)	(199,086)	(197,373)	(211,463)	(795,425)
Amortization & depreciation	(7,780)	(7,686)	(8,500)	(9,199)	(33,165)
Restructuring and other charges	(401)	(3,386)	(1,961)	(13,663)	(19,411)
Operating profit	33,498	54,619	43,230	58,326	189,673
Interest and financing costs	(10,715)	(2,039)	(1,814)	(2,061)	(16,629)
Adjustment to contingent consideration			701	(71)	630
Foreign exchange	768	856	(4,585)	(516)	(3,477)
Loss of associated businesses	(563)	(624)	(582)	(388)	(2,157)
Other income			29	19,026	19,055
CTV Inc. – gain on sale		74,590			74,590
Investment write-down				(544)	(544)
Income before taxes	22,988	127,402	36,979	73,772	261,141
Income and other taxes	(7,600)	(14,500)	(11,700)	(9,200)	(43,000)
Net income	$15,388	$112,902	$25,279	$64,572	$218,141
Attributable to:					
Equity shareholders	$15,472	$112,727	$25,239	$64,283	$217,721
Minority interests	($84)	$175	$40	$289	$420

	2010				
(in $000's)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Operating revenue	$334,967	$377,561	$353,710	$417,530	$1,483,768
Salaries and benefits	(119,422)	(124,961)	(122,973)	(134,373)	(501,729)
Other operating costs	(166,583)	(181,791)	(175,598)	(207,734)	(731,706)
Amortization & depreciation	(8,389)	(7,884)	(7,555)	(7,664)	(31,492)
Restructuring and other charges	(8,475)	(4,128)	(2,525)	(17,520)	(32,648)
Operating profit	32,098	58,797	45,059	50,239	186,193
Interest and financing costs	(4,309)	(6,636)	(6,862)	(6,328)	(24,135)
Foreign exchange	2,820	(5,798)	3,402	4,381	4,805
Loss of associated businesses	(4,557)	(7,099)	(16,242)	(445)	(28,343)
Other income		3,461			3,461
Gain on sale of assets			2,829	1,259	4,088
CTV Inc. – gain on remeasurement			115,533		115,533
Investment write-down				(773)	(773)
Income before taxes	26,052	42,725	143,719	48,333	260,829
Income and other taxes	(9,500)	(15,400)	(13,500)	(11,700)	(50,100)
Net income	$16,552	$27,325	$130,219	$36,633	$210,729
Attributable to:					
Equity shareholders	$16,461	$27,069	$130,081	$36,299	$209,910
Minority interests	$91	$256	$138	$334	$819

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by Torstar in reports filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to Torstar's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

As at December 31, 2011, under the supervision of, and with the participation of the CEO and CFO, Torstar's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, Torstar's CEO and CFO have concluded that, as at December 31, 2011, the Company's disclosure controls and procedures were effective.

Internal Controls over Financial Reporting

Torstar's management is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls include policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Torstar; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of Torstar; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Torstar's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, Torstar's management acknowledges that its internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Management, under the supervision of, and with the participation of the CEO and CFO, assessed the effectiveness of internal controls over financial reporting, using the Committee of Sponsoring Organizations of the

Treadway Commission (COSO) framework, and based on that assessment concluded that internal controls over financial reporting were effective as at December 31, 2011.

Changes in Internal Control over Financial Reporting

There have been no changes in Torstar's internal controls over financial reporting that occurred during the fourth quarter of 2011, the most recent interim period, that have materially affected, or are reasonably likely to materially affect, Torstar's internal controls over financial reporting.

OTHER

As at February 15, 2012, Torstar had 9,868,706 Class A voting shares and 69,654,523 Class B non-voting shares outstanding. More information on Torstar's share capital is provided in Note 18 of the consolidated financial statements.

As at February 15, 2012, Torstar had 4,531,339 options to purchase Class B non-voting shares outstanding to executives and non-executive directors. More information on Torstar's stock option plan is provided in Note 19 of the consolidated financial statements.

Additional information relating to Torstar including its Annual Information Form is available on SEDAR at www.sedar.com.

MANAGEMENT'S REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparation of the consolidated financial statements, notes hereto and other financial information contained in this annual report. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards using the best estimates and judgements of management, where appropriate. Information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities by the Audit Committee of the Board. The Committee meets quarterly with management and the internal and external auditors, and separately with the internal and external auditors, to satisfy itself that management's responsibilities are properly discharged, and to discuss accounting and auditing matters. The Committee reviews the consolidated financial statements and recommends approval of the consolidated financial statements to the Board.

The internal and external auditors have full and unrestricted access to the Audit Committee to discuss their audits and their related findings as to the integrity of the financial reporting process.

David P. Holland
President and Chief Executive Officer
February 28, 2012

Lorenzo DeMarchi
Executive Vice-President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Torstar Corporation

We have audited the accompanying consolidated financial statements of Torstar Corporation, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Torstar Corporation as at December 31, 2011 and 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Toronto, Canada
February 28, 2012

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Torstar Corporation
Consolidated Statement of Financial Position

(Thousands of Canadian Dollars)	***As at December 31 2011***	*As at December 31* 2010	*As at January 01* 2010
Assets			
Current:			
Cash and cash equivalents	**$50,588**	$42,991	$39,158
Receivables (note 13)	**278,010**	266,436	250,289
Inventories (note 4)	**36,995**	34,294	33,953
Derivative financial instruments (note 13)	**367**	3,354	6,067
Prepaid expenses and other current assets	**47,063**	49,439	48,913
Prepaid and recoverable income taxes	**2,451**	3,013	2,997
Total current assets	**415,474**	399,527	381,377
Property, plant and equipment (note 6)	**177,245**	171,543	177,493
Investment in associated businesses (note 7)	**16,935**	2,201	170,783
Derivative financial instruments (note 13)			1,471
Intangible assets (note 8)	**107,845**	64,293	54,094
Goodwill (note 9)	**665,029**	595,899	580,302
Other assets (note 11)	**1,798**	1,118	2,089
Deferred income tax assets (note 5)	**100,441**	84,804	84,950
Investment in CTV Inc. (note 7)		217,000	
Total assets	**$1,484,767**	$1,536,385	$1,452,559
Liabilities and Equity			
Current:			
Bank overdraft	**$7,661**	$6,958	$2,052
Current portion of long-term debt (note 12)	**196,191**		
Accounts payable and accrued liabilities	**210,567**	212,293	194,348
Derivative financial instruments (note 13)		4,947	
Provisions (note 15)	**22,599**	21,170	27,966
Income tax payable	**17,398**	33,239	19,172
Total current liabilities	**454,416**	278,607	243,538
Long-term debt (note 12)		404,586	551,240
Derivative financial instruments (note 13)	**8,761**	7,647	16,633
Provisions (note 15)	**16,906**	20,923	2,095
Other liabilities (note 16)	**27,900**	21,967	17,548
Employee benefits (note 17)	**262,876**	207,768	186,952
Deferred income tax liabilities (note 5)	**7,644**	10,327	8,267
Equity:			
Share capital (note 18)	**395,334**	392,816	391,626
Contributed surplus	**14,828**	13,235	12,182
Retained earnings	**301,863**	189,586	33,702
Accumulated other comprehensive loss (note 20)	**(8,286)**	(13,202)	(12,530)
Total equity attributable to equity shareholders	**703,739**	582,435	424,980
Minority interests	**2,525**	2,125	1,306
Total equity	**706,264**	584,560	426,286
Total liabilities and equity	**$1,484,767**	$1,536,385	$1,452,559

(see accompanying notes)

ON BEHALF OF THE BOARD

John Honderich
Director

Paul Weiss
Director

Torstar Corporation
Consolidated Statement of Income

(Thousands of Canadian Dollars except per share amounts)

	Year ended December 31	
	2011	2010
Operating revenue	**$1,548,757**	$1,483,768
Salaries and benefits	**(511,083)**	(501,729)
Other operating costs	**(795,425)**	(731,706)
Amortization and depreciation	**(33,165)**	(31,492)
Restructuring and other charges (note 15)	**(19,411)**	(32,648)
Operating profit	**189,673**	186,193
Interest and financing costs (note 12(d))	**(16,629)**	(24,135)
Adjustment to contingent consideration (note 15)	**630**	
Foreign exchange	**(3,477)**	4,805
Loss of associated businesses (note 7)	**(2,157)**	(28,343)
Other income (note 21)	**19,055**	3,461
Gain on sale of assets (note 22)		4,088
CTV Inc. – gain on sale/remeasurement (note 7)	**74,590**	115,533
Investment write-down (note 23)	**(544)**	(773)
	261,141	260,829
Income and other taxes (note 5)	**(43,000)**	(50,100)
Net income	**$218,141**	$210,729
Attributable to:		
Equity shareholders	**$217,721**	$209,910
Minority interests	**$420**	$819
Net income attributable to equity shareholders per Class A (voting) and Class B (non-voting) share (note 18(b)):		
Basic	**$2.74**	$2.65
Diluted	**$2.72**	$2.64

(see accompanying notes)

Torstar Corporation
Consolidated Statement of Comprehensive Income

(Thousands of Canadian Dollars)

	Year ended December 31	
	2011	2010
Net income	**$218,141**	$210,729
Other comprehensive income (loss):		
Unrealized foreign currency translation adjustment (no income tax effect)	**6,041**	(6,332)
Net movement on available-for-sale financial assets (no income tax effect)	**(29)**	240
Net movement on cash flow hedges	**846**	1,325
Income tax effect	**(400)**	(469)
Net movement on cash flow hedges for associated businesses (no income tax effect)		2,042
Loss on cash flow hedges for associated businesses recognized in net income upon sale of investment (no income tax effect)		2,522
Unrealized loss on hedge of net investment	**(1,792)**	
Income tax effect	**250**	
Actuarial losses on employee benefits	**(91,509)**	(27,796)
Income tax effect	**23,200**	7,115
Actuarial losses on employee benefits for associated businesses (no income tax effect)		(4,086)
Other comprehensive loss, net of tax	**(63,393)**	(25,439)
Comprehensive income, net of tax	**$154,748**	$185,290
Attributable to:		
Equity shareholders	**$154,328**	$184,471
Minority interests	**$420**	$819

(see accompanying notes)

Torstar Corporation
Consolidated Statement of Changes in Equity
(Thousands of Canadian Dollars)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total attributable to equity shareholders	Minority interests	Total equity
At January 1, 2010	$391,626	$12,182	$33,702	($12,530)	$424,980	$1,306	$426,286
Net income			209,910		209,910	819	210,729
Other comprehensive loss			(24,767)	(672)	(25,439)		(25,439)
Total comprehensive income (loss)			185,143	(672)	184,471	819	185,290
Dividends (note 18)	277		(29,259)		(28,982)		(28,982)
Issue of share capital – other (note 18)	913				913		913
Share-based compensation expense		1,053			1,053		1,053
At December 31, 2010	**$392,816**	**$13,235**	**$189,586**	**($13,202)**	**$582,435**	**$2,125**	**$584,560**
Net income			**217,721**		**217,721**	**420**	**218,141**
Other comprehensive income (loss)			**(68,309)**	**4,916**	**(63,393)**		**(63,393)**
Total comprehensive income			**149,412**	**4,916**	**154,328**	**420**	**154,748**
Dividends (note 18)	**273**		**(37,135)**		**(36,862)**		**(36,862)**
Exercise of share options (note 18)	**376**	**(52)**			**324**		**324**
Issue of share capital – other (note 18)	**1,869**				**1,869**		**1,869**
Share-based compensation expense		**1,645**			**1,645**		**1,645**
Acquisition of non-controlling interest						**(20)**	**(20)**
At December 31, 2011	**$395,334**	**$14,828**	**$301,863**	**($8,286)**	**$703,739**	**$2,525**	**$706,264**

(see accompanying notes)

Torstar Corporation
Consolidated Statement of Cash Flows

(Thousands of Canadian Dollars)

	Year ended December 31	
	2011	2010
Cash was provided by (used in)		
Operating activities	**$114,955**	$157,654
Investing activities	**137,428**	12,056
Financing activities	**(245,582)**	(170,029)
Increase (decrease) in cash	**6,801**	(319)
Effect of exchange rate changes	**93**	(754)
Cash, beginning of year	**36,033**	37,106
Cash, end of year	**$42,927**	$36,033
Operating activities:		
Net income	**$218,141**	$210,729
Amortization and depreciation (notes 6 and 8)	**33,165**	31,492
Deferred income taxes (note 5)	**4,300**	5,660
Loss of associated businesses (note 7)	**2,157**	28,343
CTV Inc. – gain on sale/remeasurement (note 7)	**(74,590)**	(115,533)
Investment write-down (note 23)	**544**	773
Non-cash employee benefit expense (note 17)	**14,566**	13,238
Employee benefits funding (note 17)	**(51,167)**	(19,535)
Other (note 24)	**(14,024)**	8,186
	133,092	163,353
Increase in non-cash working capital	**(18,137)**	(5,699)
Cash provided by operating activities	**$114,955**	$157,654
Investing activities:		
Additions to property, plant and equipment and intangible assets	**($35,046)**	($26,973)
CTV Inc. – proceeds/return of capital (note 7)	**291,590**	40,000
Investment in associated businesses (note 7)	**(17,268)**	(750)
Acquisitions and investments (note 21)	**(101,793)**	(11,398)
Proceeds from mortgage receivable (note 22)		6,215
Proceeds from sale of assets (note 22)		4,344
Other	**(55)**	618
Cash provided by investing activities	**$137,428**	$12,056
Financing activities:		
Issuance of bankers' acceptances	**$71,630**	$39,620
Repayment of bankers' acceptances	**(281,430)**	(106,918)
Repayment of medium term notes		(75,000)
Dividends paid	**(36,862)**	(28,982)
Exercise of share options	**324**	
Other	**756**	1,251
Cash used in financing activities	**($245,582)**	($170,029)
Cash represented by:		
Cash	**$42,733**	$33,040
Cash equivalents – short-term deposits	**7,855**	9,951
Cash and cash equivalents	**50,588**	42,991
Bank overdraft	**(7,661)**	(6,958)
	$42,927	$36,033

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of Canadian dollars except per share amounts)

1. CORPORATE INFORMATION

Torstar Corporation is incorporated under the laws of Ontario, Canada and its Class B (non-voting) shares are publicly traded on the Toronto Stock Exchange. The consolidated financial statements for the year ended December 31, 2011 include the accounts of the Company and all its subsidiaries and joint ventures. The registered office is located at One Yonge Street, Toronto, Canada. The principal activities of the Company and its subsidiaries are described in Note 28.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared using the accounting policies in Note 3. These consolidated financial statements are the first the Company has prepared under IFRS and include a Transition section which describes differences in certain accounting policies and methods between previously applied Canadian generally accepted accounting principles ("Canadian GAAP") and IFRS, and the changes from reported to restated results for the year ended December 31, 2010.

These consolidated financial statements have been authorized for issue in accordance with a resolution from the Board of Directors on February 28, 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The Company's consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. Each entity consolidated by the Company determines its own functional currency based on the primary economic environment in which the entity operates.

Transactions in foreign currencies are initially recorded by the entities in their respective functional currencies on the date of the transaction. Monetary assets and liabilities denominated in currencies other than the entity's functional currency are translated at the rates as at the date of the consolidated statement of financial position (period end rates). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in foreign exchange in the consolidated statement of income, except for qualifying cash flow and net investment hedges for which these exchange differences are deferred in accumulated other comprehensive income ("AOCI") within equity. These deferred foreign exchange gains and losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. Non-monetary assets and liabilities are translated into functional currencies at historical exchange rates.

Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period end rates of exchange, and items of income and expense are translated into Canadian dollars at the rates prevailing on the dates of the transactions, or average rates of exchange where these approximate actual rates. The resulting translation adjustments are included in other comprehensive income ("OCI"). Upon reduction of the Company's investment in the foreign subsidiary due to a sale or liquidation, the proportionate amount of AOCI is recognized in income.

(b) Financial instruments

Financial assets and liabilities

The Company classifies its financial assets and liabilities into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Financial assets classified as available-for-sale (“AFS”)
- Other financial liabilities

The Company has not classified any financial instruments under the held-to-maturity category. Appropriate classification of financial assets and liabilities is determined at the time of initial recognition or when reclassified on the consolidated statement of financial position.

Financial instruments classified as at fair value through profit or loss and financial assets classified as AFS are recognized on trade date, which is the date that the Company commits to purchase or sell the asset.

Financial assets and liabilities at fair value through profit or loss

The Company classifies certain financial assets and liabilities as either held for trading or designated at fair value through profit or loss. Assets and liabilities in this category include derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships.

Financial assets and liabilities at fair value through profit or loss are carried at fair value. Related realized and unrealized gains and losses are included in the consolidated statement of income.

Loans and receivables

Loans and receivables include originated and purchased non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category include current receivables and cash and cash equivalents and are classified as current assets on the consolidated statement of financial position. Non-current receivables are classified as other assets.

Loans and receivables are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment. Receivables are reduced by book revenue provisions and estimated bad debt provisions which are determined by reference to past experience and expectations. Cash and cash equivalents consist of cash in bank and short-term investments with maturities on acquisition of 90 days or less.

Financial assets classified as AFS

Financial assets that are not classified as at fair value through profit or loss or as loans and receivables are classified as AFS. A financial asset classified as AFS is initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Financial assets classified as AFS are carried at fair value with the changes in fair value reported as unrealized gains or losses on AFS assets within OCI, unless the asset is subject to a fair value hedge, in which case changes in fair value resulting from the risk being hedged are recorded in the consolidated statement of income.

Financial assets classified as AFS are assessed for impairment at each reporting date and the Company recognizes any impairment in the consolidated statement of income.

Other financial liabilities

Other financial liabilities are measured at amortized cost using the effective interest rate method. Other financial liabilities include accounts payable and accrued liabilities and the long-term debt instruments. The long term debt instruments are initially measured at fair value, which is the consideration received, net of transaction costs incurred. Transaction costs related to the long term debt instruments are included in the value of the instruments and amortized using the effective interest rate method.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset. The unrealized gains and losses recorded in AOCI are transferred to the consolidated statement of income on disposal of an AFS asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Derivative instruments and hedging

In the normal course of business, the Company uses derivative financial instruments to manage some of its risks related to foreign currency exchange rate fluctuations, interest rates and share-based compensation liability and expense. Derivative transactions are governed by a uniform set of policies and procedures covering areas such as authorization, counterparty exposure and hedging practices. Positions are monitored based on changes in interest and foreign currency exchange rates and their impact on the market value of derivatives. Credit risk on derivatives arises from the potential for counterparties to default on their contractual obligations to the Company. The Company limits its credit risk by dealing with counterparties that are considered to be of high credit quality. The Company does not enter into derivative transactions for trading or speculative purposes.

All derivatives, including derivatives designated as hedges for accounting purposes and embedded derivatives, are recorded on the consolidated statement of financial position at fair value. The accounting for the changes in the fair value of derivatives depends on whether or not they are designated as hedges for accounting purposes.

Foreign exchange contracts to sell U.S. dollars have been designated as hedges against future intercompany Book Publishing revenues. Gains and losses on these instruments are accounted for as a component of the related hedged transaction. Gains and losses on foreign exchange contracts which do not qualify for hedge accounting are reported in the consolidated statement of income.

Interest rate swap contracts have been designated as hedges against interest expense. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on an accrual basis. Any resulting carrying amounts are included on the consolidated statement of financial position.

The Company has derivative instruments to manage its exposure associated with changes in the fair value of its deferred share unit (“DSU”) plans and the cost of its restricted share unit (“RSU”) plan. These instruments are settled quarterly and changes in the fair value of these instruments are recorded as compensation expense. The change in the Company’s share price between the settlement date and the reporting date is included on the consolidated statement of financial position at the fair value of these derivative instruments at each reporting date.

The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. In order for a derivative to qualify for hedge accounting, the derivative must be formally designated as a fair value, cash flow or net investment hedge by documenting the relationship between the derivative and the hedged item. The documentation includes a description of the hedging instrument, the hedged item, the risk being hedged, the Company’s risk management objective and strategy

for undertaking the hedge, the method for assessing the effectiveness of the hedge and the method for measuring hedge ineffectiveness. Additionally, the hedge relationship must be expected to be highly effective at offsetting changes in either the fair value or cash flows of the hedged item at both the inception of the hedge and on an ongoing basis. The Company assesses the ongoing effectiveness of its hedges at each reporting date.

The amounts in AOCI are recycled to the consolidated statement of income in the period when the hedged item will affect profit and loss (for instance, when the forecast sale that is hedged takes place). If a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any unrealized cumulative gain or loss remains in AOCI and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of income. If a forecast transaction is no longer expected to occur, the unrealized cumulative gain or loss that was reported in AOCI is recognized in the consolidated statement of income.

Fair value hedges

These are hedges of the fair value of recognized assets, liabilities or a firm commitment. Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the consolidated statement of income together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges

These are hedges of highly probable forecast transactions such as the floating to fixed interest rate swap agreements and foreign exchange forward contracts. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized in OCI. The gain or loss relating to the ineffective portion is recognized in the consolidated statement of income.

Net investment hedges

These are hedges of the Company's net investment in its foreign operations. The effective portion of the change in the fair value of the hedging instrument is recorded directly in OCI. The ineffective portion is recognized in the consolidated statement of income in the period in which the change occurs. Upon the sale or liquidation of the foreign operations, the amounts deferred in AOCI are recognized in the consolidated statement of income.

Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative in the consolidated statement of financial position, at its fair value. Any future changes in the fair value are recorded in the consolidated statement of income.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized in the consolidated statement of income.

Determination of fair value

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. The fair value of instruments that are quoted in active markets is determined using the quoted prices where they represent

those at which regularly and recently occurring transactions take place. The Company uses valuation techniques to establish the fair value of instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market. These valuation techniques involve some level of management estimation and judgement, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair values of cash and cash equivalents and bank overdraft are classified within Level 1 because they are based on quoted prices for identical assets in active markets.

The fair value of derivative financial instruments reflects the estimated amount that the Company would have been required to pay if forced to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at the reporting date. The fair value represents a point-in-time estimate that may not be relevant in predicting the Company's future earnings or cash flows.

The Company's derivative financial instruments include foreign exchange forward contracts, interest rate swaps and derivative instruments to manage its exposure associated with changes in the fair value of its DSU plans and the cost of its RSU plan. The fair value of foreign exchange forward contracts is classified within Level 2 as it is based on foreign currency rates quoted by banks and is the difference between the forward exchange rate and the contract rate.

The Company determines the fair value for interest rate swaps as the net discounted future cash flows using the implied zero-coupon forward swap yield curve. The change in the difference between the discounted cash flow streams for the hedged item and the hedging item is deemed to be hedge ineffectiveness and recorded in the consolidated statement of income. The fair value for the interest rate swaps is based on forward yield curves which are observable inputs provided by banks and available in other public data sources, and are classified within Level 2.

The fair value of the derivative instruments managing the Company's exposure under the DSU and RSU plans is classified within Level 2 and is based on the movement in the Company's share price between the quarterly settlement date and the reporting date which are observable inputs.

The fair value of portfolio investments measured at fair value is classified within Level 2 because even though the securities are listed, they are not actively traded.

(c) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of finished goods and work in progress includes raw materials, translation and printing and production costs. Raw materials are valued at purchase cost on a first in, first out basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. Provisions are made for slow moving and obsolete inventory. Reversals of previous write-downs to net realizable value are recorded when there is a subsequent increase in the value of the inventory.

(d) Prepaid expenses and other current assets

Prepaid expenses and other current assets include advance royalty payments to authors which are deferred until the related works are published and are reduced by estimated provisions for advances that may exceed royalties earned.

(e) Property, plant and equipment

These assets are recorded at cost net of accumulated depreciation and any accumulated impairment losses, and depreciated over their estimated useful lives. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred.

Depreciation is calculated using the straight-line basis over the estimated useful life of the asset as follows:

- Buildings
  - Structural — 35 – 60 years
  - Components — 15 – 25 years
- Machinery and Equipment
  - Machinery and Equipment — 20 – 40 years
  - Furniture and Fixtures — 5 – 15 years
- Leasehold Improvements — Term of the lease plus renewal periods, when renewal is reasonably assured

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of income when the asset is derecognized.

The useful lives and methods of depreciation and the assets' residual values are reviewed at least annually, and the depreciation charge is adjusted prospectively, if appropriate.

(f) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they are incurred.

(g) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity or jointly controlled interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in

accordance with IAS 39, *Financial Instruments: Recognition and Measurement,* either in the consolidated statement of income or as a change to OCI.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the consolidated statement of income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(h) Intangible assets

Intangible assets are recognized separately from goodwill when they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets that have a finite useful life are amortized over the useful economic life of the asset and are stated at cost less accumulated amortization and any accumulated impairment losses. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits is accounted for by changing the amortization period or method, as appropriate, and adjusted prospectively.

Amortization is calculated using the straight-line basis over the estimated useful life of the asset as follows:

- Software 3 – 10 years
- Customer relationships and other 4 – 10 years
- Franchise agreements 10 years

Intangible assets with indefinite useful lives are not amortized. These include newspaper mastheads and trade and domain names. The assessment of indefinite life is reviewed at each reporting date to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

(i) Impairment of non-financial assets

At each reporting date, the Company assesses its non-financial assets, including property, plant and equipment, goodwill and intangible assets, for potential indicators of impairment, such as an adverse change in business climate that may indicate that these assets may be impaired. In addition, indefinite life intangible assets and goodwill are tested for impairment annually in the fourth quarter. Goodwill is allocated to a cash generating unit ("CGU") or group of CGUs for the purpose of impairment testing based on the level at which management monitors it, which is not larger than an operating segment.

For the annual impairment testing or if any impairment indicator exists, the Company estimates the asset's, CGU's or group of CGUs' recoverable amount. The determination of the recoverable amount in the impairment assessment requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgements and assumptions.

The Company records impairment losses on its non-financial assets when the Company believes that their carrying value may not be recoverable. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to the recoverable amount and the reduction is recorded in Restructuring and other charges.

If the recoverable amount of a CGU or group of CGUs is less than its carrying amount, an impairment loss is recognized. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs and then to the other assets of the CGU or group of CGUs pro rata on the basis of

the carrying amount of each asset in the CGU or group of CGUs. Individual assets in the group cannot be written down below their fair value.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If the reasons for impairment no longer apply, impairment losses are reversed up to a maximum of the carrying amount of the respective asset if the impairment loss had not been recognized.

(j) Investments in associated businesses

An associate is an entity in which the Company has significant influence. Investments in associates are accounted for using the equity method. Under the equity method, the investment in the associate is carried on the consolidated statement of financial position at cost plus post acquisition changes in the Company's share of the net assets of the associate. Goodwill on the acquisition of the associates is included in the cost of the investments and is neither amortized nor tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the OCI of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in OCI. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

After the application of the equity method, the Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired and consequently whether it is necessary to recognize an impairment loss on the Company's investment in its associate. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statement of income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

(k) Revenue recognition

Advertising revenue is recognized when publications are delivered or advertisements are placed on the Company's digital platforms. Newspaper circulation revenue is recognized when the publication is delivered. Subscription revenue for newspapers is recognized as the publications are delivered over the term of the subscription.

Revenue from the sale of books is recognized for the retail print distribution channel based on the book's publication date (books are shipped prior to the publication date so that they are in stores by the publication date) and for all other distribution channels when title has transferred to the buyer. Book publishing revenue is recorded net of provisions for estimated returns and direct-to-consumer bad debts ("book revenue provisions"). Retail print books are sold with a right of return. The retail returns provision is estimated based primarily on point-of-sale information, returns patterns and historical sales performance for the type of book and the author. Direct-to-consumer books are shipped with no obligation to the customer who may return the books or cancel their subscription at any time. The direct-to-consumer book revenue provision recognizes that not all books shipped will be purchased by the customer. Book revenue provisions are made at the time of shipment for the anticipated physical return of the books or a non-payment for the shipment. The direct-to-consumer book revenue provisions are estimated based on historical payment rates for the type of book as well as how long the customer has been a subscriber. Book publishing revenue attributable to the customer loyalty points program that is deferred at the date of the initial sale is recognized as revenue when the Company fulfills its obligations.

Other revenue is recognized when the related service or product has been delivered. Amounts received in advance are included on the consolidated statement of financial position in accounts payable and accrued liabilities until the revenue is recognized in accordance with the policies noted above.

(l) Employee benefits

The Company maintains both defined benefit and capital accumulation (defined contribution) employee benefit plans. Details with respect to accounting for defined benefit employee future benefit plans are as follows:

- The cost and obligations of pensions and post employment benefits earned by employees is calculated annually by independent actuaries using the projected unit credit method prorated on service and management's best estimate of assumptions of future investment returns for funded plans, salary increases, retirement ages of employees and expected health care costs. On an interim basis, management estimates the changes in the actuarial gains and losses. These estimates are adjusted when the annual valuation or estimate is completed by the independent actuaries.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company without regulatory approval.
- The present value of the defined benefit obligation is determined by discounting estimated future cash flows using the current interest rate at the reporting date on high quality fixed income investments with maturities that match the expected maturity of the obligations.
- The vested portion of past service cost arising from plan amendments is recognized in the consolidated statement of income. The unvested portion is recognized as an expense on a straight-line basis over the average remaining period until the benefits become vested.
- The changes in the actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized in OCI in the period in which they arise and charged or credited to retained earnings.
- The asset or liability that is recognized on the consolidated statement of financial position is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets and unrecognized past service costs. For the funded plans, the value of any minimum funding requirements (as determined by the applicable pension legislation) is recognized to the extent that the amounts are considered recoverable. Recoverability is primarily based on the extent to which the Company can reduce the future contributions to the plan.

Company contributions to capital accumulation plans are expensed as incurred.

(m) Share-based compensation plans

The Company has a share option plan, an employee share purchase plan (“ESPP”), two DSU plans and an RSU plan.

The fair value of the share options granted and the ESPP subscriptions are measured using the Black-Scholes pricing model. For share options, the model considers each tranche with graded vesting features as a separate share option grant. The forfeitures for the share options and the ESPP subscriptions are estimated on the grant date and revised as the actual forfeitures differ from estimates.

This fair value is recognized as compensation expense over the vesting and subscription periods with a related credit to contributed surplus. The contributed surplus balance is reduced as options are exercised and when the ESPP matures through a credit to share capital. The consideration paid by option holders and the ESPP subscribers is credited to share capital when the options are exercised or when the plan matures.

Eligible executives and non-employee directors may receive or elect to receive DSUs equivalent in value to Class B non-voting shares of the Company. Compensation expense is recorded in the year of granting of the DSUs and changes in the fair value of outstanding DSUs, including deemed dividend equivalents, are recorded as an expense in the period that they occur. DSUs can only be redeemed once the executive or director is no longer employed with the Company. Outstanding DSUs are recorded as long-term liabilities.

Eligible executives may be granted RSU awards equivalent in value to Class B non-voting shares of the Company. RSUs vest after three years and are settled in cash. RSUs are accrued over the three-year vesting period as compensation expense and a related liability. Forfeitures are estimated on the grant date and revised if the actual forfeitures differ from the estimates. The liability is recorded at fair value at each reporting date. Accrued RSUs are recorded as long-term liabilities, except for the portion that will vest within twelve months which is recorded as a current liability.

(n) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated statement of income, unless it relates to items recognized outside the consolidated statement of income. Tax expense relating to items recognized outside of the consolidated statement of income is recognized in correlation to the underlying transaction in either OCI or equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided using the liability method for temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are measured using substantively enacted tax rates and laws at the reporting date that are expected to be in effect when the temporary differences are expected to reverse.

Deferred taxes are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are not recognized for temporary differences that arise on initial recognition of assets and liabilities other than in a business combination.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that sufficient taxable profit will be available against which they can be utilized.

(o) Provisions

Provisions are recognized if the Company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation as of the date of the consolidated statement of financial position, taking into account the risks and uncertainties surrounding the obligation.

Provisions are discounted and measured at the present value of the expenditure expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party (for example, because the obligation is covered by an insurance policy), an asset is recognized if it is virtually certain that reimbursement will be received.

(p) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences to the date that control ceases.

(q) Joint ventures

Joint ventures are entities where the Company has contractual arrangements with other venturer(s) that establish joint control over the economic activities of the entity. The Company recognizes its interests in joint ventures using the proportionate consolidation method. The Company combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. Unrealized gains and losses resulting from transactions between the Company and the joint ventures are eliminated to the extent of the interest in the joint ventures.

(r) Transactions eliminated on consolidation

Intra-group balances and transactions are eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company's interest in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(s) Use of estimates and judgements

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets, and liabilities and the disclosure of contingent liabilities, at the end of the reporting period.

Management uses estimates when accounting for certain items such as revenues, allowance for doubtful accounts, useful lives of long-lived assets, asset impairments, provisions, share-based compensation plans, employee benefit plans, deferred income taxes and goodwill impairment. Estimates are also made by management when recording the fair value of assets acquired and liabilities assumed in a business combination.

Estimates are based on a number of factors, including historical experience, current events and other assumptions that management believes are reasonable under the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results could differ. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The more significant estimates and judgements made by management are described below:

Classification of investments as portfolio investments, associated businesses, joint ventures and subsidiaries

Classification of investments requires judgement on whether the Company controls, has joint control or significant influence over the strategic financial and operating decisions relating to the activity of the investee. Joint control is the contractually agreed sharing of control over the financial and operating policy decisions of the investee. It exists only when the decisions require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not represent control or joint control over those decisions. If an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

In assessing the level of control or influence that the Company has over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements.

Black Press has been classified as an associated business based on management's judgement that the Company has, based on rights to board representation and other provisions in the shareholder agreement, significant influence despite owning only 19.35% of the voting rights.

Book revenue provisions

Revenue from the sale of books is recorded net of provisions for returns and direct-to-consumer bad debts. The provisions are estimated based on point-of-sale information, returns patterns, historical sales performance for the type of book and author, historical payment rates for the type of book and the length of time the customer has been a member of the direct-to-consumer program. The variance between the original estimate for returns and direct-to-consumer bad debts, and the actual experience is recorded in the period when the data becomes available.

Employee benefits

The accrued benefit asset or liability and the related cost of defined benefit pension plans and other post-employment benefits earned by employees is determined each year by independent actuaries based on several assumptions.

The actuarial valuation uses management's assumptions for the discount rate used to measure obligations, expected long-term rate of return on pension plan assets, rate of compensation increase, trends in healthcare costs, employee turnover and expected mortality. The most significant assumptions are the discount rate and the expected long-term rate of return on pension plan assets.

The discount rate, used to determine the present value of the future cash flows that are expected to be needed to settle employee benefit obligations, is based on the yield on long-term high-quality corporate bonds with maturities matching the estimated cash flows from the benefit plan. A lower discount rate would result in a higher employee benefit obligation.

The expected long-term rate of return is a weighted average of estimated long-term returns on each of the major plan asset categories in the Company's pension funds. A lower expected rate would result in a lower fair value of the plan assets and a higher employee net benefit obligation. Further details about the assumptions used are provided in Note 17.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The key estimates and assumptions used in the discounted cash flow model are cash flow growth rates for the projection period and in perpetuity for the calculation of the terminal value and discount rates. More details on the key assumptions used by the Company to assess its assets and cash generating units are provided in note 10.

Taxes

The Company is subject to income taxes in Canada and foreign jurisdictions. Significant judgement is required in determining the world-wide provision for income taxes. In the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Management uses judgement in interpreting tax laws and determining the appropriate rates and amounts in recording current and deferred taxes, giving consideration to timing and probability. Actual income taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that sufficient taxable profit will be available

against which they can be utilized. When assessing the probability of taxable profit being available, management primarily considers prior years' results, forecasted future results and non-recurring items. As such, the assessment of the Company's ability to utilize tax losses carried forward is to a large extent judgement-based. If the future taxable results of the Company differ significantly from those expected, the Company would be required to increase or decrease the carrying value of the deferred tax assets with a potentially material impact on the Company's consolidated statement of financial position and consolidated statement of comprehensive income. The carrying amount of deferred tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to utilize all or part of the deferred tax assets. Unrecognized deferred tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable profits to allow all or part of the asset to be recovered.

Further details on taxes are disclosed in Note 5.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations such as liquidity risk, credit risk and volatility. Changes in the assumptions about these factors could affect the reported fair value of financial instruments.

Fair value measurement of contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination and is subsequently remeasured to fair value at each reporting date. The determination of the fair value is primarily based on revenue levels estimated to be realized by the acquired businesses for specified periods following the acquisition. The key assumptions take into consideration the probability of meeting each performance target and the discount rate. Depending on the absolute amount of the contingent consideration and the time until it becomes payable, the actual payment could differ significantly from the original estimate.

Provisions

Provisions are based to a significant extent on management estimates with regard to their amount and probability of occurrence. Assessments of whether there is a present obligation; whether an outflow of resources is probable and whether it is possible to reliably estimate the amount of the obligation, require management to exercise judgement. In some situations, external advice may be obtained to assist with the estimates. Future information could change the estimates and thus impact the Company's financial position and results of operations.

(t) Upcoming changes in accounting policies

IFRS 7 *Financial Instruments: Disclosures*

In October 2010, the IASB amended IFRS 7 to enhance the disclosure about transfers of financial assets. This improvement is to assist users in understanding the possible effects of any risks that remain in an entity after the asset has been transferred. In addition, if disproportionate amounts are transferred close to the year-end, additional disclosures would be required. The effective date of the amendment is for annual periods beginning on or after July 1, 2011. The Company has determined that the adoption of this amendment will not have a material impact on the consolidated financial statements.

IAS 12 *Income Taxes*

In December 2010, the IASB amended IAS 12 for the recovery of underlying assets and the impact on deferred taxes. The amendments provide a solution to the problem of assessing whether recovery would be through use or through sale when the asset is measured at fair value under IAS 40 *Investment Property*, by

adding the presumption that the recovery would normally be through sale. The amendment also incorporates the remaining guidance in SIC-21 *Income Taxes – Recovery of Revalued Non-depreciable Assets,* as SIC-21 has been withdrawn. The effective date of the amendment is for annual periods beginning on or after January 1, 2012. The Company has determined that the adoption of this amendment will not have a material impact on the consolidated financial statements.

IFRS 9 *Financial Instruments: Classification and Measurement*

In November 2009, the IASB issued IFRS 9, which covers classification and measurement as the first part of its project to replace IAS 39. In October 2010, the Board also incorporated new accounting requirements for liabilities. The standard introduces new requirements for measurement and eliminates the current classification of loans and receivables, available-for-sale and held-to-maturity, currently in IAS 39. There are new requirements for the accounting of financial liabilities as well as a carryover of requirements from IAS 39. The Company does not anticipate early adoption and will adopt the standard on the effective date of January 1, 2015. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

In May 2011, the IASB issued the following standards which are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is in the process of reviewing the standards below to determine the impact on the consolidated financial statements:

IFRS 10 *Consolidated Financial Statements*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC -12 *Consolidations - Special Purpose Entities* and replaces parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 *Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint operation or a joint venture. The standard eliminates the use of the proportionate consolidation method to account for joint ventures. Joint ventures will be accounted for using the equity method of accounting while for a joint operation, the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. IFRS 11 supersedes SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and IAS 31 *Joint Ventures*.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. IFRS 12 replaces the previous requirements included in IAS 27 *Consolidated and Separate Financial Statements*; IAS 31 *Joint Ventures* and IAS 28 *Investment in Associates*.

IFRS 13 *Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. IFRS 13 defines fair value and establishes disclosures about fair value measurement.

IAS 27 *Separate Financial Statements*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Company does not present separate financial statements.

IAS 28 *Investments in Associates and Joint Ventures*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

In June 2011, the IASB amended the following standards, which the Company is in the process of reviewing to determine the impact on the consolidated financial statements:

IAS 1 *Presentation of Financial Statements*

The IASB amended IAS 1 by revising how certain items are presented in other comprehensive income (“OCI”). Items within OCI that may be reclassified to profit and loss will be separated from items that will not. The standard is effective for financial years beginning on or after July 1, 2012 with early adoption permitted. The amendment affects presentation only and has no impact on the Company’s financial position or performance.

IAS 19 *Employee Benefits*

The IASB made a number of amendments to IAS 19, which included eliminating the use of the “corridor” approach and requiring remeasurements to be presented in OCI; past service costs to be recognized immediately, whether vested or not as well as enhanced disclosures. The standard also requires that the discount rate used to determine the defined benefit obligation should also be used to calculate the expected return on plan assets by introducing a net interest approach, which replaces the expected return on plan assets and interest costs on the defined benefit obligation, with a single net interest component determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation. The standard is effective for financial years beginning on or after January 1, 2013 with early adoption permitted.

In December 2011, the IASB amended both IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures* by moving the disclosure requirements in IAS 32 to IFRS 7 and enhancing the disclosures about offsetting financial assets and liabilities. The effective date of the amendments is January 1, 2015. Earlier adoption is permitted but must be applied together with IFRS 9.

4. INVENTORIES

	December 31, 2011	December 31, 2010	January 1, 2010
Finished goods	**$9,399**	$10,681	$11,164
Work in progress	**9,873**	11,013	11,292
Raw materials	**17,723**	12,600	11,497
	$36,995	$34,294	$33,953

The Company has expensed inventory costs of $215.2 million for the year ended December 31, 2011 (2010 - $204.1 million). The Company recorded an inventory write-down of $3.7 million for the year ended December 31, 2011 (2010 - $3.4 million).

5. INCOME TAXES

Income tax expense is made up of the following:

	Year ended December 31	
	2011	2010
Current income tax expense (recovery):		
Current year	**$39,200**	$44,940
Adjustment for prior years	**(500)**	(500)
	38,700	44,440
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	**14,500**	9,160
Recognition of previously unrecognized tax losses	**(10,000)**	(3,000)
Adjustment for prior years	**(200)**	(500)
	4,300	5,660
Income tax expense in the consolidated statement of income	**$43,000**	$50,100
Current income tax recovery in OCI	**(250)**	
Deferred income tax recovery in OCI	**(22,800)**	(6,646)
Income tax recovery in OCI	**(23,050)**	(6,646)
Total income taxes	**$19,950**	$43,454

Income taxes of $58.5 million were paid and refunds of $2.4 million were received during the year (2010 - $30.3 million paid and refunds of $2.4 million received).

Reconciliation of effective tax rate

The combined Canadian federal and provincial statutory rate was 28.25% in 2011 (31% in 2010), and will be further reduced in stages to 25% by 2014.

	Year ended December 31	
	2011	2010
Income before taxes	**$261,141**	$260,829
Provision for income taxes based on Canadian statutory rate of 28.25% (2010: 31%)	**$73,800**	$80,800
Increase (decrease) in taxes resulting from:		
Gain on sale/remeasurement of CTV Inc. not recognized	**(21,100)**	(35,800)
Loss of associated businesses not recognized	**800**	8,800
Gain on remeasurement not recognized	**(5,400)**	(1,100)
Prior years' losses not previously recognized	**(10,000)**	(3,000)
Effect of higher foreign tax rates	**3,900**	1,200
Foreign losses not recognized	**100**	300
Non-taxable portion of capital (gains) losses		(1,600)
Non-deductible expenses	**2,200**	1,800
Other	**(1,300)**	(1,300)
Income tax expense	**$43,000**	$50,100
Effective income tax rate	**16.5%**	19.2%

The Company sold its 20% interest in CTV Inc. in April 2011 and recognized a gain of $74.6 million which was not subject to tax, as the Company had previously written down the cost of the investment below its tax basis. In

September 2010, the Company had recognized a gain on remeasurement of its investment in CTV Inc. of $115.5 million which was also not subject to tax.

The Company realized a capital loss for tax purposes of $45.6 million on the disposition in April 2011. No tax benefit has been recognized for $44.4 million of the capital loss.

Deferred tax assets and liabilities

Net deferred tax assets

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax assets and liabilities as at December 31, 2011 and December 31, 2010 are as follows:

	December 31, 2010	Recognized in net income	Recognized in OCI	Acquired in business combinations	Foreign exchange & other	December 31, 2011
Book revenue provisions	$12,456	($1,845)		$76	$231	$10,918
Property, plant & equipment	(8,054)	621		(1,282)	61	(8,654)
Intangible assets	(9,098)	(866)		(1,268)	(53)	(11,285)
Financial instruments	2,470		($400)			2,070
Provision for employee benefit obligations	54,835	(9,830)	23,200		72	68,277
Share-based payment transactions	1,938	(331)				1,607
Tax loss carry forwards	22,286	8,488		783	657	32,214
Other	(2,356)	(537)		275	268	(2,350)
Net deferred tax assets	$74,477	($4,300)	$22,800	($1,416)	$1,236	$92,797
As reported in the consolidated statement of financial position						
Deferred tax assets	$84,804					$100,441
Deferred tax liabilities	(10,327)					(7,644)
Net deferred tax assets	$74,477					$92,797

	January 1, 2010	Recognized in net income	Recognized in OCI	Acquired in business combinations	Foreign exchange & other	December 31, 2010
Book revenue provisions	$13,860	($1,152)			($252)	$12,456
Property, plant & equipment	(6,034)	(2,000)			(20)	(8,054)
Intangible assets	(7,342)	(104)		($1,604)	(48)	(9,098)
Financial instruments	2,939		($469)			2,470
Provision for employee benefit obligations	50,096	(2,342)	7,115		(34)	54,835
Share-based payment transactions	1,197	741				1,938
Tax loss carry forwards	25,307	(1,849)			(1,172)	22,286
Other	(3,340)	1,046		(306)	244	(2,356)
Net deferred tax assets	$76,683	($5,660)	$6,646	($1,910)	($1,282)	$74,477
As reported in the consolidated statement of financial position						
Deferred tax assets	$84,950					$84,804
Deferred tax liabilities	(8,267)					(10,327)
Net deferred tax assets	$76,683					$74,477

Tax loss carryforwards

The Company has tax loss carryforward balances and has recognized a deferred tax asset in respect of these losses to the extent that it is probable that they will be utilized before they expire.

The Company has capital loss carryforwards in Canada of $47.9 million (2010 – $3.5 million) that can be carried forward indefinitely and applied to only offset capital gains. No deferred tax asset has been recognized in respect of the capital loss as there is no current intent to dispose of capital properties.

The U.S. subsidiaries have combined net operating loss carryforwards of U.S. $133.9 million (2010 – U.S. $148.4 million). These tax losses arose in prior years from the operation and disposition of businesses that are no longer carried on by the Company. The current U.S. business has no relation to the former business operations, and has a history of profits. A deferred tax asset has been recognized for a portion of the U.S. tax loss carryforward based upon expectations of future operating profits for the current operations, as determined by reference to historic operating results and forecasts.

The tax loss carryforward balance at December 31, 2011, the portion of the loss recognized in the deferred tax assets, and year of expiry are summarized as follows:

	Tax loss carryforward		Portion recognized in deferred tax assets	Expiry
	Local currency	Canadian dollars		
As at December 31, 2011:				
Canada – net operating losses	**$21,600**	**$21,600**	**$21,600**	**2025 to 2031**
Canada – capital losses	**$47,900**	**$47,900**		**No expiry**
U.S. – net operating losses	**U.S. $133,900**	**$136,100**	**$79,400**	**2019 to 2029**
Other foreign losses		**$1,700**	**$400**	**Various**
As at December 31, 2010:				
Canada – net operating losses	$7,400	$7,400	$5,500	2025 to 2030
Canada – capital losses	$3,500	$3,500		No expiry
U.S. – net operating losses	U.S. $148,400	$147,600	$60,000	2019 to 2029
Other foreign losses		$3,900	$2,700	Various
As at January 1, 2010:				
Canada – net operating losses	$11,900	$11,900	$10,800	2025 to 2028
Canada – capital losses	$3,400	$3,400		No expiry
U.S. – net operating losses	U.S. $157,300	$164,700	$69,700	2019 to 2029
Other foreign losses		$4,200		Various

Investments in subsidiaries, associates and joint ventures

The excess of the tax basis over the carrying value of investments in subsidiaries, associates and joint ventures for which a deferred tax asset has not been recognized, is $192.4 million as at December 31, 2011 (2010 – $271.0 million).

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and leasehold improvements	Machinery and equipment	Total
Cost				
Balance at January 1, 2010	$6,836	$135,397	$207,019	$349,252
Acquisitions – business combinations			33	33
Additions		4,633	11,672	16,305
Disposals	(85)	(3,499)	(12,140)	(15,724)
Reclassifications		384	(2,082)	(1,698)
Foreign exchange	(132)	(563)	(1,253)	(1,948)
Balance at December 31, 2010	**6,619**	**136,352**	**203,249**	**346,220**
Acquisitions – business combinations	**175**	**1,274**	**7,266**	**8,715**
Additions		**6,462**	**12,028**	**18,490**
Disposals		**(1,678)**	**(15,440)**	**(17,118)**
Reclassifications		**390**	**528**	**918**
Foreign exchange	**56**	**274**	**482**	**812**
Balance at December 31, 2011	**$6,850**	**$143,074**	**$208,113**	**$358,037**
Depreciation and impairment				
Balance at January 1, 2010		$43,529	$128,230	$171,759
Additions		7,050	14,759	21,809
Disposals		(3,316)	(11,970)	(15,286)
Reclassifications		9	(2,242)	(2,233)
Foreign exchange		(433)	(939)	(1,372)
Balance at December 31, 2010		**46,839**	**127,838**	**174,677**
Additions		**8,011**	**13,754**	**21,765**
Disposals		**(1,674)**	**(15,348)**	**(17,022)**
Reclassifications		**(315)**	**1,174**	**859**
Foreign exchange		**199**	**314**	**513**
Balance at December 31, 2011		**$53,060**	**$127,732**	**$180,792**
Net book value				
At January 1, 2010	$6,836	$91,868	$78,789	$177,493
At December 31, 2010	$6,619	$89,513	$75,411	$171,543
At December 31, 2011	**$6,850**	**$90,014**	**$80,381**	**$177,245**

7. INVESTMENT IN ASSOCIATED BUSINESSES

The Company's Investment in associated businesses includes a 19.35% equity interest in Black Press Ltd. ("Black Press"), a 25% equity investment in Blue Ant Media Inc. ("Blue Ant"), a 33.33% equity interest in Canadian Press Enterprises Inc. ("Canadian Press"), and a 30% equity interest in Q-ponz Inc. ("Q-ponz"). The Company's 20% equity interest in CTV Inc. ("CTV") was also classified as an investment in associated businesses until September 10, 2010 when it was classified as AFS.

Black Press

Black Press is a privately held company that publishes more than 150 newspapers (weeklies, dailies and shoppers) in Canada and the U.S. and has 16 press centres in Western Canada, Washington State, Ohio and Hawaii. The Company has not recorded its share of Black Press' results in either 2011 or 2010 as the Company's carrying value in Black Press was previously reduced to nil. The Company will report its share of Black Press's results once the unrecognized losses ($0.3 million as of December 31, 2011) have been offset by net income or other comprehensive income.

Blue Ant

Blue Ant is an independent media company which holds a controlling interest in GlassBOX Television (operating specialty channels Travel+Escape, Bite TV and Aux TV), a minority interest in Quarto Communications (publisher of Cottage Life, Outdoor Canada, Explore and Canadian Home Workshop) and a minority interest in High Fidelity TV (operating four premium high definition channels Oasis HD, eqhd, radX and HIFI).

The Company invested $16.9 million on December 21, 2011 and will invest a further $5.8 million simultaneously with the completion of the acquisition by Blue Ant of 100% of High Fidelity TV (which is subject to approval by the Canadian Radio-television and Telecommunications Commission).

Blue Ant has an August fiscal year end and therefore does not have coterminous quarter-ends with the Company. The Company will start recording its share of Blue Ant's results in fiscal 2012 with the first quarter including Blue Ant's results for their quarter ended February 29, 2012.

Canadian Press

Canadian Press operates The Canadian Press news agency. The Company invested an initial $0.8 million on November 15, 2010 and committed to invest an additional $0.5 million in 2011.

The Company has recorded its share of Canadian Press's results through the third quarter of 2011 when the Company's carrying value was reduced to nil. The Company will report its share of Canadian Press's results once the unrecognized losses ($3.9 million as of December 31, 2011) have been offset by net income, other comprehensive income or additional investments are made.

Q-ponz

Q-ponz produces and delivers unaddressed co-op direct mail. The Company has recorded its share of Q-ponz's results through the fourth quarter of 2011.

During the fourth quarter, the Company completed an assessment of the value of its investment in Q-ponz to determine if there has been an other than temporary decline in the value relative to its carrying value. The Company determined that there had been a decline in the value. A $0.5 million write-down was recorded, reducing the carrying value to nil. In early 2012, the Company sold its interest in Q-ponz to the controlling shareholder for nominal consideration.

CTV

On September 10, 2010, the Company entered into agreements to sell its interest in CTV for aggregate cash proceeds of approximately $345 million. On December 31, 2010, the Company received $40 million in connection with CTV's sale of The Globe and Mail.

Effective with the signing of the agreements, the Company's investment in CTV was reclassified as AFS and remeasured to estimated fair value of $257.0 million resulting in a gain of $115.5 million which was not subject to tax, as the Company had previously written down the cost of the investment below its tax basis. With the change in classification, the Company ceased to equity account for CTV results as of September 10, 2010. The Company's share of CTV's net loss was $28.0 million in 2010, representing CTV's results through September 10, 2010. The remeasured value of $257.0 million was reduced by the $40.0 million received on December 31, 2010 resulting in a remeasured value as of December 31, 2010 of $217.0 million.

On April 1, 2011, the Company completed the sale of its interest in CTV to BCE Inc. for proceeds of $291.6 million. At that point, the unrealized gain recorded in OCI during 2011, totalling $74.6 million, was reclassified to the consolidated statement of income. This gain of $74.6 million was also not subject to tax.

The following is a continuity of Investment in associated businesses:

	Year ended December 31	
	2011	2010
Balance, beginning of year	**$2,201**	$170,783
Loss of associated businesses	**(2,157)**	(28,343)
Write-down of investment in Q-ponz	**(544)**	
Actuarial losses on employee benefits for associated businesses		(4,086)
Change in investees' AOCI		4,564
Reclassification of CTV to AFS financial asset		(141,467)
Investment in Canadian Press	**500**	750
Investment in Blue Ant	**16,935**	
Balance, end of year	**$16,935**	$2,201

8. INTANGIBLE ASSETS

	Indefinite life	**Finite life**			**Total**
		Software	**Other**	**Total**	
Cost					
Balance at January 1, 2010	$25,132	$65,816	$19,943	$85,759	$110,891
Acquisitions – business combinations	6,842	413	2,704	3,117	9,959
Additions – internally developed		4,195		4,195	4,195
Additions – purchased		6,473		6,473	6,473
Disposals		(4,363)		(4,363)	(4,363)
Reclassifications		1,581		1,581	1,581
Foreign exchange	44	(241)	21	(220)	(176)
Balance at December 31, 2010	**32,018**	**73,874**	**22,668**	**96,542**	**128,560**
Acquisitions – business combinations	**9,856**	**61**	**28,455**	**28,516**	**38,372**
Additions – internally developed		**3,135**		**3,135**	**3,135**
Additions – purchased	**12**	**13,409**		**13,409**	**13,421**
Disposals		**(10,798)**	**(752)**	**(11,550)**	**(11,550)**
Reclassifications		**288**	**(9)**	**279**	**279**
Foreign exchange	**8**	**99**	**(3)**	**96**	**104**
Balance at December 31, 2011	**$41,894**	**$80,068**	**$50,359**	**$130,427**	**$172,321**
Amortization and impairment					
Balance at January 1, 2010	$1,633	$49,333	$5,831	$55,164	$56,797
Amortization		6,401	3,282	9,683	9,683
Impairment loss	90				90
Disposals		(4,363)		(4,363)	(4,363)
Reclassifications		2,250		2,250	2,250
Foreign exchange		(182)	(8)	(190)	(190)
Balance at December 31, 2010	**1,723**	**53,439**	**9,105**	**62,544**	**64,267**
Amortization		**7,277**	**4,123**	**11,400**	**11,400**
Disposals		**(10,707)**	**(752)**	**(11,459)**	**(11,459)**
Reclassifications		**184**		**184**	**184**
Foreign exchange		**83**	**1**	**84**	**84**
Balance at December 31, 2011	**$1,723**	**$50,276**	**$12,477**	**$62,753**	**$64,476**
Net book value					
At January 1, 2010	$23,499	$16,483	$14,112	$30,595	$54,094
At December 31, 2010	$30,295	$20,435	$13,563	$33,998	$64,293
At December 31, 2011	**$40,171**	**$29,792**	**$37,882**	**$67,674**	**$107,845**

9. GOODWILL

	Goodwill
Cost and net book value:	
Balance at January 1, 2010	$580,302
Acquisitions – business combinations	15,793
Foreign exchange and other	(196)
Balance at December 31, 2010	**595,899**
Acquisitions – business combinations	**68,998**
Foreign exchange and other	**132**
Balance at December 31, 2011	**$665,029**

Goodwill acquired in a business combination is allocated to a CGU or groups of CGUs that are expected to benefit from the synergies of the combination. Each CGU or group of CGU to which goodwill is allocated is the lowest level at which the goodwill is monitored for internal management purposes but is not larger than an operating segment.

Goodwill has been allocated to the following groups of CGUs:

	December 31, 2011	December 31, 2010	January 1, 2010
Harlequin	**$111,151**	$111,123	$103,628
Metroland Media Group	**258,826**	240,681	239,644
Star Media Group			
Toronto Star Group	**141,191**	140,948	140,948
Metro	**75,851**	25,765	25,765
Others	**78,010**	77,382	70,317
Total	**$665,029**	$595,899	$580,302

10. IMPAIRMENT TESTING

The test for impairment for either an intangible asset or goodwill is to compare the recoverable amount of the asset, CGU or group of CGUs to the carrying value. The recoverable amount is the greater of fair value less costs to sell and value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets (such as goodwill). If this is the case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

The Company generally uses the value in use calculation to determine the recoverable amount but in certain circumstances may use fair value less costs to sell. The value in use calculation uses cash flow projections for a five year period and a terminal value. The terminal value is the value attributed to the cash flow beyond the projected period using a perpetuity growth rate. The key assumptions in the value in use calculations are EBITDA growth rates (for periods within the cash flow projections and in perpetuity for the calculation of the terminal value), future levels of maintenance expenditures on capital and discount rates:

- EBITDA growth rates and future levels of capital expenditures are based on management's best estimates considering historical and expected operating plans, strategic plans, economic conditions and the general outlook for the industry and markets in which the cash-generating unit operates. The projections are based on the most recent financial budgets and three year strategic plans approved by the Company's Board of Directors and management forecast beyond that period.
- The discount rate applied to each calculation is an after-tax rate that reflects an optimal debt-to-equity ratio and considers the risk free rate, market equity risk premium, size premium and the risks specific to each CGU or group of CGUs cash flow projections.
- In calculating the value in use, the Company uses a range of discount rates in order to establish a range of values for each CGU or group of CGUs.

- The perpetuity growth rate is based on management's best estimates considering the industry, operating income trends and growth prospects for that specific CGU or group of CGUs.

The after-tax discount and perpetual growth rates used by the Company for the purpose of impairment testing for each of the following CGU or group of CGUs in the following periods were:

	Fiscal 2011		Fiscal 2010		January 1, 2010	
	Discount	**Growth**	Discount	Growth	Discount	Growth
Harlequin	**8.5% - 10.4%**	**1.0%**	8.5% - 10.4%	1.0%	9.1% - 11.1%	1.0%
Metroland Media Group	**8.7% - 10.6%**	**0.0%**	8.6% - 10.5%	1.0%	9.3% - 11.4%	1.0%
Toronto Star Group	**8.5% - 9.4%**	**0.0%**	8.7% - 9.6%	1.0%	9.1% - 10.1%	1.0%
Metro	**n/a**		10.0% - 11.1%	2.0%	10.5% - 11.6%	2.0%
Others	**9.8% - 14.7%**	**1.0% - 3.0%**	10.0% - 15.5%	1.5% - 4.0%	10.5% - 16.3%	1.5% - 4.0%

These after-tax rates correspond to pre-tax rates in an estimated range of 11% - 23% for fiscal 2011; 11% - 21% for fiscal 2010 and 12% - 22% on January 1, 2010.

For the fiscal 2011 impairment testing, Metro was assessed for impairment based on the transaction value whereby the Company increased its ownership in Metro to 90%.

On January 1, 2010, on the transition to IFRS, the Company completed its impairment testing of goodwill and indefinite-life intangible assets. There was no impairment loss required to be recorded on the transition date. The Company also assessed for any indicators that previous impairment losses had decreased. As certain businesses had improved results and outlook, $0.5 million of previously recorded impairment losses on non-amortizable intangible assets was reversed.

The Company has completed its annual impairment testing of goodwill and intangible assets for fiscal 2011 and 2010. There was no impairment loss or reversals of impairment loss recorded as a result of the testing.

11. OTHER ASSETS

	December 31, 2011	December 31, 2010	January 1, 2010
Portfolio investments	**$774**	$203	$883
ESPP receivable	**431**	469	312
Employee benefit asset (note 17)			371
Other long term receivables	**593**	446	523
	$1,798	$1,118	$2,089

12. LONG-TERM DEBT

	December 31, 2011	December 31, 2010	January 1, 2010
Bankers' acceptances:			
Cdn. dollar denominated	**$108,020**	$320,998	$381,819
U.S. dollar denominated	**88,171**	83,588	92,951
	$196,191	$404,586	$474,770
Medium term notes:			
Cdn. dollar denominated			$75,000
Fair value hedge			1,470
			76,470
	$196,191	$404,586	$551,240
Current	**$196,191**		
Long-term		$404,586	$551,240

(a) Bank debt

i. In January 2012, the Company renewed its long-term credit facilities with its bankers, which consists of a $150 million revolving facility maturing January 2016 (“Tranche A”) and a $200 million revolving facility maturing in January 2014 (“Tranche B”). Either or both tranches can be extended with the consent of all parties for additional 364-day periods. Prior to January 2012, the Company had long-term credit facilities with its bankers consisting of a $275 million revolving term loan (reduced from $425 million in April 2011 at the Company’s request). The term loan matured in January 2012 and was classified as current at December 31, 2011. Prior to April 2011, the long-term credit facilities also included a revolving operating loan of $175 million, which was cancelled in April 2011 at the Company’s request.

ii. The credit facilities may be drawn in Canadian or U.S. dollars and are subject to financial tests and other covenants with which the Company was in compliance at December 31, 2011. Amounts borrowed under the bank credit facilities are primarily in the form of bankers’ acceptance (or an equivalent) at varying interest rates and normally mature over periods of 30 to 180 days. Effective January 2012, the interest rate spread above the bankers’ acceptance rate if in Canadian dollars, or the LIBOR rate if in U.S. dollars, varies based on the Company’s net debt to operating cash flow ratio (range of 1.4% to 2.5%) for borrowings under either tranche (January 2011 – 0.6% for borrowings under the revolving term loan, varied based on the Company’s long-term credit rating spread and 2.25% on new borrowings under the revolving operating loan, varied based on the Company’s net debt to operating cash flow ratio (range of 2.0% to 3.8%)). Effective January 2012, the interest rate spread is 1.5%. The interest rate spread at December 31, 2011 was 0.6% (December 31, 2010 – blended rate of 1.6%).

iii. In September 2006, the Company entered into interest rate swap agreements for five years through September 2011, with major Canadian chartered banks that fixed the interest rate on $250 million of Canadian dollar borrowings. As a result, the Company paid quarterly a fixed rate of 4.3% per annum (plus the interest rate spread referred to in 12(a)(ii)) and received quarterly floating rate payments based on 90 day bankers’ acceptance rates. These swap contracts were designated as cash flow hedges until the Company extinguished these swap agreements in March 2011 and paid $3.8 million, which has been included in interest and financing costs.

iv. The average rate on Canadian dollar bank borrowings outstanding at December 31, 2011 was 1.8% (December 31, 2010 – 2.7%; 5.3% including the effect of the interest rate swap noted in 12(a)(iii)).

v. In May 2008, the Company entered into two interest rate swap agreements that fix the interest rate on U.S. $80 million of borrowings at approximately 4.2% (plus the interest rate spread referred to in 12(a)(ii)) for seven years ending May 2015. These swaps have been designated as cash flow hedges. The fair value of the U.S. interest rate swap arrangements at December 31, 2011 was $8.8 million unfavourable (December 31, 2010 – $7.6 million unfavourable).

vi. Bank debt outstanding at December 31, 2011 included U.S. dollar borrowings of U.S. $87.0 million (December 31, 2010 – U.S. $84.2 million) at an average rate of 0.7% (December 31, 2010 – 1.9%). Including the effect of the interest rate swap noted in 12(a)(v), the effective rate was 4.6% at December 31, 2011 (December 31, 2010 – 5.8%).

(b) The Company is exposed to credit related losses in the event of non-performance by counterparties to the above described derivative instruments, but it does not anticipate any counterparties to fail to meet their obligations given their high credit ratings. The Company has a policy of only contracting with major financial institutions, as approved by the Board of Directors, as counterparties.

(c) Loans under the long term credit facilities may only be made provided there has been no development materially adversely affecting the business or financial condition or position of the Company and its subsidiaries considered on a consolidated basis. There were no such developments as at December 31, 2011.

(d) Interest and financing costs for the year ended December 31, 2011 consists of interest on long-term debt of $14.1 million, including the $3.8 million paid to extinguish the swap agreements in 12(a)(iii), (2010 – $23.8 million); interest accretion costs of $2.7 million (2010 – $0.8 million) offset by interest income of $0.2 million (2010 - $0.5 million).

(e) Interest paid during the year ended December 31, 2011 (including the $3.8 million paid to extinguish the swap agreements in 12(a)(iii)) was $14.2 million (2010 – $24.0 million).

13. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The carrying values of the Company's financial instruments approximate their fair values unless otherwise noted.

	December 31, 2011	December 31, 2010	January 1, 2010
Financial assets:			
Loans and receivables, measured at amortized cost:			
Cash and cash equivalents	**$50,588**	$42,991	$39,158
Trade accounts receivable	**271,784**	256,922	236,081
Other receivables	**6,226**	9,514	14,208
Receivables	**278,010**	266,436	250,289
Available-for-sale, measured at fair value:			
Portfolio investments[1]	**774**	203	883
Investment in CTV Inc.		217,000	
Derivatives designated as effective hedges, measured at fair value:			
Foreign currency forward contracts	**367**	3,354	6,067
Interest rate swaps – cash flow hedges (current)		(4,947)	
Interest rate swaps – cash flow hedges (non-current)	**(8,761)**	(7,647)	(16,632)
Interest rate swaps – fair value hedges (non-current)			1,470
Derivatives			
Other (non-current)			1
Other (non-current)			(1)
Other financial liabilities, measured at amortized cost:			
Bank overdraft	**7,661**	6,958	2,052
Current portion of long-term debt	**196,191**		
Long term debt		404,586	551,240
Accounts payable and accrued liabilities	**210,567**	212,293	194,348
Deferred payments on acquisitions[1]		3,984	3,667
Call option liability[1]	**10,821**		
Provisions (current)	**22,599**	21,170	27,966
Provisions (non-current)	**16,906**	20,923	2,095

[1] These amounts are included in Other assets or Other liabilities

Risk management

The Company is exposed to various risks related to its financial assets and liabilities. These risk exposures are managed on an ongoing basis.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at a reasonable cost. The Company manages liquidity risk primarily by maintaining sufficient unused capacity within its long term credit facilities. The unused capacity at December 31, 2011 was approximately $51 million (December 31, 2010 - $173 million). The credit facilities matured in January 2012 and the Company has renegotiated the renewal of the facilities as disclosed in note 12(a)(i). If the renewal of the credit facilities had been in place at December 31, 2011, the unused capacity would have been $126 million.

The maturity profile of the Company's financial liabilities, based on contractual undiscounted payments, is as follows:

	2012	2013	2014	2015	2016	2017+	Total
Foreign currency hedges[1]							
Outflows	$53,240	$30,510	$5,085				$88,835
Inflows	(53,724)	(30,728)	(5,269)				(89,721)
	(484)	(218)	(184)				(886)
U.S. $ Interest rate swaps	3,382	3,382	3,382	$1,193			11,339
Bank overdraft	7,661						7,661
Accounts payable and accrued liabilities[1]	210,567						210,567
Call option liability			11,184				11,184
Provisions[1]	22,880	6,359	2,136	3,652	$2,228	$4,457	41,712
Long term debt[1,2]	196,191						196,191
Total	$440,197	$9,523	$16,518	$4,845	$2,228	$4,457	$477,768

[1] All foreign currency denominated amounts have been translated at the December 31, 2011 spot rates.
[2] The long-term credit facilities were renewed in January 2012 as indicated in note 12(a)(i).

Credit risk

In the normal course of business, the Company is exposed to credit risk from its accounts receivable from customers. The carrying amounts for accounts receivable are net of applicable book revenue provisions and allowances for doubtful accounts. The allowances for doubtful accounts are estimated based on past experience, specific risks associated with the customer and other relevant information. Under a billing and collection agreement with a third party, the Book Publishing Segment has a net receivable of $29.1 million (U.S. $28.6 million) at December 31, 2011 (December 31, 2010 - $30.4 million (U.S. $30.5 million)). The Company believes that the credit risk associated with this balance is mitigated by the financial stability and payment history of the third party.

The Company is also exposed to credit-related losses in the event of non-performance by counterparties to derivative instruments. The Company manages its counterparty risk by only contracting with major financial institutions with high credit ratings, as approved by the Board of Directors, as counterparties.

The maximum exposure to credit risk is the carrying value of these financial assets.

The following table sets out the ageing of the trade receivables:

	December 31, 2011	December 31, 2010	January 1, 2010
Gross accounts receivable:			
Current	**$251,802**	$263,614	$251,315
Up to three months past due date	**102,317**	99,828	88,969
Three to twelve months past due date	**12,535**	10,028	7,571
Impaired	**613**	285	
	367,267	373,755	347,855
Book revenue provisions	**(88,362)**	(108,992)	(103,287)
Allowances for doubtful accounts	**(7,121)**	(7,841)	(8,487)
	$271,784	$256,922	$236,081

The continuity of the allowance for doubtful accounts is as follows:

	Year ended December 31	
	2011	2010
Balance, beginning of year	**($7,841)**	($8,487)
Utilized	**3,800**	4,686
Income statement movements	**(2,805)**	(4,070)
Exchange differences and other	**(275)**	30
Balance, end of year	**($7,121)**	($7,841)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

a) Foreign currency risk

The Company is exposed to foreign currency risk through Harlequin's international operations. The most significant foreign currency exposure is to movements in the U.S. dollar/Cdn. dollar exchange rate. To manage this exchange risk in its operating results, the Company's practice is to enter into forward foreign exchange contracts to hedge a portion of its U.S dollar revenues as detailed below. A $0.05 higher (lower) average U.S. dollar/Cdn. dollar exchange rate during the year ended December 31, 2011 would have increased (decreased) net income by approximately $1.5 million (2010 – $0.7 million).

The Company has entered into forward foreign exchange contracts to allow it to convert a portion of its expected future U.S. dollar revenue into Canadian dollars. The forward foreign exchange contracts establish a rate of exchange of Canadian dollar per U.S. dollar of $1.03 for U.S. $52.4 million in 2012, $1.02 for U.S. $30.0 million in 2013 and $1.05 for U.S. $5.0 million in 2014 (December 31, 2010 – $1.07 for U.S. $35.5 million in 2011 and $1.07 for U.S. $19.0 million in 2012). These forward foreign exchange contracts have been designated as cash flow hedges and the net fair value of these contracts was $0.4 million favourable at December 31, 2011 (December 31, 2010 – $3.4 million favourable).

Forward foreign exchange contracts settled in 2011 established a rate of exchange of Canadian dollar per U.S. dollar of $1.07 for U.S. $35.5 million (2010 - $1.16 for U.S. $51.6 million).

In order to offset the exchange risk on its consolidated statement of financial position from net U.S. dollar denominated assets, the Company maintains a certain level of U.S. dollar denominated debt as indicated in Note 12(a)(v). Effective January 1, 2011, the Company designated $80 million of its U.S. dollar debt as a hedge of its U.S. dollar denominated net investment in subsidiaries with the U.S. dollar as their functional currency. Gains or losses on the translation of the designated hedge amount are transferred to OCI to offset

any gains or losses on translation of the net investments in subsidiaries with the U.S. dollar as their functional currency. There was no hedge ineffectiveness in the year ended December 31, 2011.

From time to time, the Company may also enter into forward foreign exchange contracts to hedge other currencies (Yen, Euro, Pound Sterling) realized in Harlequin's overseas operations.

b) Interest rate risk

The Company's interest rate risk arises from borrowings issued at variable rates which expose the Company to cash flow interest rate risk. The Company manages this risk through the use of interest rate swap contracts to fix the interest rate on a portion of the debt as detailed in Note 12.

An assumed increase of 1% in the Company's short term borrowing rates during the year ended December 31, 2011 would have decreased net income by $0.9 million (2010 – $1.0 million), with an equal but opposite effect for an assumed decrease of 1% in short term borrowing rates.

14. CAPITAL MANAGEMENT

The Company's capital management objectives are to maintain financial flexibility in order to preserve its capacity to meet its financial commitments, to pay dividends and to meet its potential obligations resulting from internal growth and acquisitions.

The Company defines capital as:

- Total equity
- Long term debt
- Bank overdraft net of cash and cash equivalents

Total managed capital was as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Total equity	**$706,264**	$584,560	$426,286
Long term debt (including current portion)	**196,191**	404,586	551,240
Bank overdraft	**7,661**	6,958	2,052
Cash and cash equivalents	**(50,588)**	(42,991)	(39,158)
	$859,528	$953,113	$940,420

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, subject to capital market conditions, the Company may elect to adjust the amount of debt outstanding, adjust the amount of dividends paid to shareholders, return capital to its shareholders, repurchase its shares in the marketplace or issue new shares.

The Company is currently meeting all its financial commitments. The Company's credit facilities are subject to financial tests and other covenants with which it was in compliance at December 31, 2011.

There have been no changes in the Company's approach to capital management during the year.

The Company is not subject to any external capital requirements.

15. PROVISIONS

Restructuring

During the year ended December 31, 2011, the Company recorded restructuring and other charges of $19.4 million, of which $18.8 million was recorded in the Media Segment and $0.6 million in the Book Publishing Segment.

The Media Segment restructuring provisions include $15.6 million relating to staff reductions and a $3.2 million charge for rented spaces that were vacated as reduced staff counts allowed for space consolidation. The $3.2 million charge represents the discounted shortfall between the remaining obligation under the existing leases and the amounts to be received through sublease arrangements. The non-current restructuring provisions are expected to be paid out from 2012 through 2028 within the Media Segment.

The $0.6 million recorded in the Book Publishing Segment relate to staff reductions in the North American Retail business and are all classified as current provisions.

During the year ended December 31, 2010, the Company recorded restructuring and other charges of $32.6 million. This included restructuring provisions of $28.2 million related to staff reductions in the Media Segment, and other charges of $4.4 million.

The other charges of $4.4 million included $2.8 million related to transaction costs for the Company's bid to purchase the newspaper and digital businesses of Canwest Limited Partnership and its related entities; a $1.2 million adjustment to a provision for litigation in the Media Segment and $0.4 million related to transaction costs from Harlequin's acquisition of the other half of the German publishing business.

Legal

The Company is involved in various legal actions, primarily in the Media Segment, which arise in the ordinary course of business. While the final outcome of these matters cannot be predicted with certainty, any additional liability that may arise from such contingencies is not expected to have a material adverse effect on the financial position or results of operations of the Company.

Contingent consideration

The contingent consideration provision is an estimate of the fair value of contingent consideration for acquisitions within the Media Segment, which are primarily based on revenue levels estimated to be realized by the acquired businesses for specified periods following the acquisition.

	Restructuring	Legal	Contingent consideration	Total
Balance at January 1, 2010	$26,327	$1,639	$2,095	$30,061
Provisions made during the year	29,121	1,279	5,522	35,922
Reversals of provisions during the year	(925)	(100)		(1,025)
Foreign exchange		(79)		(79)
Provisions paid during the year	(22,136)	(179)	(840)	(23,155)
Interest accretion			369	369
Balance at December 31, 2010	**32,387**	**2,560**	**7,146**	**42,093**
Provisions made during the year	**19,794**		**1,087**	**20,881**
Reversals of provisions during the year	**(383)**	**(427)**		**(810)**
Adjustment to contingent consideration			**(630)**	**(630)**
Foreign exchange	**3**	**2**		**5**
Provisions paid during the year	**(21,622)**	**(1,795)**	**(823)**	**(24,240)**
Interest accretion	**1,338**		**868**	**2,206**
Balance at December 31, 2011	**$31,517**	**$340**	**$7,648**	**$39,505**
Current	**$15,725**	**$340**	**$6,534**	**$22,599**
Non-current	**$15,792**		**$1,114**	**$16,906**
Balance at December 31, 2010:				
Current	$18,094	$2,560	$516	$21,170
Non-current	$14,293		$6,630	$20,923
Balance at January 1, 2010:				
Current	$26,327	$1,639		$27,966
Non-current			$2,095	$2,095

16. OTHER LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Employees' shares subscribed (note 19(b))	**$3,617**	$3,830	$3,537
RSU Plan (note 19(c))	**1,597**	3,037	1,283
DSU Plan (note 19(e))	**2,655**	3,210	2,263
Deferred payments on acquisitions		3,984	3,667
Call option liability	**10,821**		
Lease inducements	**2,075**	2,234	2,393
Other	**7,135**	5,672	4,405
	$27,900	$21,967	$17,548

17. EMPLOYEE FUTURE BENEFITS

The Company maintains a number of defined benefit plans which provide pension benefits to its employees in Canada and the United States. Pension benefits are calculated based on a combination of years of service and compensation levels. The Company also maintains capital accumulation plans in Canada, the United States and in certain overseas operations of Harlequin. Post employment benefits other than pensions which provide for various health and life insurance benefits are also available primarily to employees in the newspaper operations hired prior to August 23, 2000.

Information concerning the Company's post employment benefit plans is as follows:

Net defined benefit plan obligations

Changes to the net defined benefit obligation were as follows:

	Pension plans			**Post employment benefit plans**	**Total[1]**
	Funded				
	Canada	**United States**	**Unfunded[2]**		
January 1, 2010	$112,882	$6,280	$20,465	$46,954	$186,581
Expense recognized in statement of income	6,861	1,618	1,700	3,059	13,238
Amounts recognized in OCI	20,812	1,851	1,411	3,722	27,796
Contributions to plan	(16,253)	(545)	(418)	(2,319)	(19,535)
Foreign exchange		(312)			(312)
December 31, 2010	**$124,302**	**$8,892**	**$23,158**	**$51,416**	**$207,768**
Expense recognized in statement of income	**8,324**	**1,176**	**2,018**	**3,048**	**14,566**
Amounts recognized in OCI	**85,258**	**2,838**	**(470)**	**3,883**	**91,509**
Contributions to plan	**(45,146)**	**(1,273)**	**(2,440)**	**(2,308)**	**(51,167)**
Foreign exchange		**200**			**200**
December 31, 2011	**$172,738**	**$11,833**	**$22,266**	**$56,039**	**$262,876**

[1] At December 31, 2010 and 2011 the entire net defined benefit obligation is reflected in Employee benefits liabilities. At January 1, 2010 the net defined benefit obligation is recorded as $371 in Other assets and $186,952 in Employee benefits liabilities.

[2] The unfunded pension plan is an executive retirement plan which is supported by an outstanding letter of credit of $25.2 million as at December 31, 2011 (December 31, 2010 - $21.9 million).

A summary of the components of the net defined benefit obligation as at December 31, 2011 and 2010 is as follows:

2011	**Pension plans**			**Post employment benefit plans**	**Total**
	Funded				
	Canada	**United States**	**Unfunded**		
Defined benefit obligations	**$881,845**	**$25,186**	**$22,266**	**$56,039**	**$985,336**
Fair value of plan assets	**(709,107)**	**(13,353)**			**(722,460)**
Net defined benefit obligation	**$172,738**	**$11,833**	**$22,266**	**$56,039**	**$262,876**

2010	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Defined benefit obligations	$778,462	$20,623	$23,158	$51,416	$873,659
Fair value of plan assets	(694,354)	(11,731)			(706,085)
Funded status - deficit	84,108	8,892	23,158	51,416	167,574
Minimum funding liability[1]	40,194				40,194
Net defined benefit obligation	$124,302	$8,892	$23,158	$51,416	$207,768

[1] The minimum funding liability represents additional legislated funding requirements and the limits on the amount of assets that can be recognized related to this funding. There is no minimum funding liability outstanding at December 31, 2011.

The following table provides a summary of changes in the defined benefit obligation and the fair value of plan assets during 2011 and 2010:

2011	**Pension plans**			**Post employment benefit plans**	**Total**
	Funded				
	Canada	**United States**	**Unfunded**		
Accrued benefit obligations					
Balance, beginning of year	**$778,462**	**$20,623**	**$23,158**	**$51,416**	**$873,659**
Current service cost	**16,062**	**960**	**906**	**474**	**18,402**
Interest cost	**39,657**	**1,089**	**1,112**	**2,574**	**44,432**
Benefits paid	**(43,923)**	**(353)**	**(2,440)**	**(2,308)**	**(49,024)**
Actuarial losses (gain)	**86,235**	**2,402**	**(470)**	**3,883**	**92,050**
Participant contributions	**5,352**				**5,352**
Foreign exchange		**465**			**465**
Balance, end of year	**$881,845**	**$25,186**	**$22,266**	**$56,039**	**$985,336**
Plans' assets					
Fair value, beginning of year	**$694,354**	**$11,731**			**$706,085**
Expected return on plan assets	**47,395**	**873**			**48,268**
Actuarial losses	**(39,217)**	**(436)**			**(39,653)**
Benefits paid	**(43,923)**	**(353)**	**($2,440)**	**($2,308)**	**(49,024)**
Employer contributions	**45,146**	**1,273**	**2,440**	**2,308**	**51,167**
Participant contributions	**5,352**				**5,352**
Foreign exchange		**265**			**265**
Fair value, end of year	**$709,107**	**$13,353**			**$722,460**
Funded status – deficit	**$172,738**	**$11,833**	**$22,266**	**$56,039**	**$262,876**

2010	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Accrued benefit obligations					
Balance, beginning of year	$695,858	$17,160	$20,465	$46,954	$780,437
Current service cost	11,558	800	548	390	13,296
Interest cost	40,172	982	1,152	2,669	44,975
Benefits paid	(42,626)	(306)	(418)	(2,319)	(45,669)
Actuarial losses	67,372	2,272	1,411	3,722	74,777
Participant contributions	6,128				6,128
Prior service costs		568			568
Foreign exchange		(853)			(853)
Balance, end of year	$778,462	$20,623	$23,158	$51,416	$873,659
Plans' assets					
Fair value, beginning of year	$650,533	$10,880			$661,413
Expected return on plan assets	44,869	732			45,601
Actuarial gains	19,197	421			19,618
Benefits paid	(42,626)	(306)	($418)	($2,319)	(45,669)
Employer contributions	16,253	545	418	2,319	19,535
Participant contributions	6,128				6,128
Foreign exchange		(541)			(541)
Fair value, end of year	$694,354	$11,731			$706,085
Funded status – deficit	$84,108	$8,892	$23,158	$51,416	$167,574

Net benefit expense for defined benefit plans included in salaries and benefits in the 2011 and 2010 consolidated statement of income is as follows:

2011	**Pension plans**			**Post employment benefit plans**	**Total**
	Funded				
	Canada	**United States**	**Unfunded**		
Current service cost	**$16,062**	**$960**	**$906**	**$474**	**$18,402**
Interest cost on benefit obligation	**39,657**	**1,089**	**1,112**	**2,574**	**44,432**
Expected return on plan assets	**(47,395)**	**(873)**			**(48,268)**
Net benefit expense	**$8,324**	**$1,176**	**$2,018**	**$3,048**	**$14,566**

2010	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Current service cost	$11,558	$800	$548	$390	$13,296
Interest cost on benefit obligation	40,172	982	1,152	2,669	44,975
Expected return on plan assets	(44,869)	(732)			(45,601)
Prior service costs		568			568
Net benefit expense	$6,861	$1,618	$1,700	$3,059	$13,238

Amounts recognized in the 2011 and 2010 consolidated statement of comprehensive income (before tax):

2011	**Pension plans**			**Post employment benefit plans**	**Total**
	Funded				
	Canada	**United States**	**Unfunded**		
Actuarial (losses) gain	**($125,452)**	**($2,838)**	**$470**	**($3,883)**	**($131,703)**
Change in minimum funding liability	**40,194**				**40,194**
Amounts recognized in OCI	**($85,258)**	**($2,838)**	**$470**	**($3,883)**	**($91,509)**

2010	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Actuarial losses	($48,175)	($1,851)	($1,411)	($3,722)	($55,159)
Change in minimum funding liability	27,363				27,363
Amounts recognized in OCI	($20,812)	($1,851)	($1,411)	($3,722)	($27,796)

	Pension plans		Post employment benefit plans	
Significant assumptions used	**2011**	2010	**2011**	2010
To determine benefit obligation at end of year:				
Discount rate	**4.3% to 4.4%**	4.7% to 5.1%	**4.4%**	5.1%
Rate of future compensation increase	**3.0% to 4.0%**	3.0% to 4.0%	**N/A**	N/A
To determine benefit expense:				
Discount rate	**4.7% to 5.1 %**	5.5% to 5.8%	**5.1%**	5.8%
Expected long-term rate of return on plan assets	**6.75%**	7.0%	**N/A**	N/A
Rate of future compensation increase	**3.0% to 4.0%**	3.0% to 4.0%	**N/A**	N/A
Health care cost trend rates at end of year:				
Initial rate	**N/A**	N/A	**8.0%**	8.5%
Ultimate rate	**N/A**	N/A	**5.0%**	5.0%
Year ultimate rate reached	**N/A**	N/A	**2017**	2017

The effect of a one percent increase or decrease in significant assumptions used for the Company's pension and post employment benefit plans would result in an increase (decrease) in the net benefit expense and accrued benefit obligation at December 31, 2011.

	Net benefit expense		Accrued benefit obligation	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Pension plans:				
Discount rate	(744)	(80)	(110,082)	125,766
Expected long-term rate of return on plan assets	(7,146)	7,146		
Rate of compensation increase	683	(663)	9,601	(9,329)
Post employment benefit plans:				
Discount rate	98	(134)	(5,720)	6,922
Per capita cost of health care	103	(90)	1,953	(1,703)

Pension plan assets, measured as at December 31, 2011 and 2010 are as follows:

	2011	2010
Equity investments	**51%**	61%
Fixed income investments	**49%**	39%
Total	**100%**	100%

The estimate for the expected long-term rate of return in plan assets is calculated based on the Company's targeted investment portfolio mix of 55% equity investment and 45% fixed income investment (December 31, 2010 – 60% and 40% respectively). In determining the expected rate of return, the Company considers historical returns and input from investment advisors and actuaries.

Based on actuarial reports that were completed as of December 31, 2010, Torstar's 2011 funding obligation for its registered pension plans was $46 million. The Company will be required to prepare another set of actuarial reports as of December 31, 2011 to determine its final 2012 funding requirements. Preliminary calculations estimate that funding requirements will be in the range of $65 – $70 million.

Capital accumulation plans

The total amount expensed for capital accumulation plans in 2011 was $3.1 million (2010 - $2.7 million).

18. SHARE CAPITAL

(a) Rights attaching to the Company's share capital:

(i) Class A (voting) and Class B (non-voting) shares, no par value

Class A and Class B shareholders may elect to receive dividends in cash or stock dividends in the form of Class B shares. Class A shares are convertible at any time at the option of the holder into Class B shares.

(ii) Voting provisions

Class B shares are non-voting unless the Company has failed to pay the full quarterly preferential dividend (7.5 cents per annum) on the Class B non-voting shares in each of eight consecutive quarters.

(iii) Restrictions on transfer

Registration of the transfer of any of the Company's shares may be refused if such transfer could jeopardize either the ability of the Company to engage in broadcasting or its status as a Canadian newspaper or periodical publisher.

(b) Summary of changes in the Company's share capital:

	Year ended December 31			
	2011		2010	
	Shares	**Amount**	Shares	Amount
Class A shares (voting)				
Balance, beginning of year	**9,873,337**	**$2,682**	9,875,407	$2,683
Converted to Class B	**(4,631)**	**(1)**	(2,070)	(1)
Balance, end of year	**9,868,706**	**$2,681**	9,873,337	$2,682
Class B shares (non-voting)				
Balance, beginning of year	**69,244,753**	**$390,134**	69,129,929	$388,943
Converted from Class A	**4,631**	**1**	2,070	1
Dividend reinvestment plan	**24,624**	**273**	27,960	277
Issued under ESPP	**334,997**	**1,853**	83,194	896
Share option plan	**43,818**	**376**		
Other	**1,450**	**16**	1,600	17
Balance, end of year	**69,654,273**	**$392,653**	69,244,753	$390,134
Total Class A and Class B shares	**79,522,979**	**$395,334**	79,118,090	$392,816

An unlimited number of Class B shares is authorized. While the number of Class A shares is unlimited, the issuance of further Class A shares, may under certain circumstances, require unanimous board approval.

(c) Earnings per share

Basic earnings per share amounts have been determined by dividing net income attributable to equity shareholders by the weighted average number of Class A and Class B shares outstanding during the year.

The treasury stock method is used for the calculation of the dilutive effect of share options and other dilutive securities. In calculating diluted per share amounts under the treasury stock method, the numerator remains unchanged from the basic per share calculation as the assumed exercise of the Company's share options and ESPP does not result in an adjustment to income.

The reconciliation of the denominator in calculating diluted per share amounts is as follows:

	Year ended December 31	
(thousands of shares)	**2011**	2010
Weighted average number of shares outstanding, basic	**79,400**	79,074
Effect of dilutive securities		
- share options	**536**	411
- ESPP	**13**	152
Weighted average number of shares outstanding, diluted	**79,949**	79,637

Outstanding stock options totaling 2,651,922 (2010 – 2,754,743), which are out of the money have been excluded from the above calculation of dilutive securities.

(d) Dividends

The following dividends were declared and distributed by the Company per Class A (voting) share and Class B (non-voting) share:

	Year ended December 31	
	2011	2010
First quarter ended March 31: 9.25 cents (2010 - 9.25 cents)	**$7,320**	$7,308
Second quarter ended June 30: 12.5 cents (2010 - 9.25 cents)	**9,937**	7,316
Third quarter ended September 30: 12.5 cents (2010 - 9.25 cents)	**9,939**	7,317
Fourth quarter ended December 31: 12.5 cents (2010 - 9.25 cents)	**9,939**	7,318
Total dividends	**$37,135**	$29,259

19. SHARE-BASED COMPENSATION PLANS

(a) Share option plan

Eligible senior executives may be granted options to purchase Class B non-voting shares at an option price which shall not be less than the closing market price of the shares on the last trading day before the grant. Prior to 2003, non-executive directors were also eligible to be granted options.

The maximum number of shares that may be issued under the share option plan is 12,500,000 and the number of shares reserved for issuance to insiders (together with shares issuable to insiders under all other share compensation arrangements) cannot exceed 10% of the outstanding Class A and Class B shares. The term of the options shall not exceed ten years from the date the option is granted. Up to 25% of an option grant may be exercised twelve months after the date granted, and a further 25% after each subsequent anniversary. Options to purchase 9,784,433 shares have been granted (net of options cancelled) as of December 31, 2011 (2010 – 9,894,036).

A summary of changes in the share option plan is as follows:

	Share options	**Weighted average exercise price**
January 1, 2010	3,487,880	$20.10
Granted	854,678	$6.33
Forfeited or expired	(193,481)	($21.79)
December 31, 2010	**4,149,077**	**$17.19**
Granted	**488,813**	**$12.21**
Exercised	**(43,818)**	**($7.40)**
Forfeited or expired	**(598,416)**	**($21.04)**
December 31, 2011	**3,995,656**	**$16.11**

The weighted average share price at the times when the options were exercised was $13.64.

As at December 31, 2011, outstanding share options were as follows:

Range of exercise price	**Share options outstanding**	**Weighted average remaining contractual life**	**Weighted average exercise price**
$5.75 – 8.37	1,343,734	7.6 Years	$7.03
$12.21 – 19.61	1,019,013	7.5 Years	$15.84
$21.85 – 22.20	1,121,822	1.6 Years	$22.12
$25.50 – 29.01	511,087	1.5 Years	$27.32
$5.75 – 29.01	3,995,656	6.3 Years	$16.11

Range of exercise price	Share options exercisable	Weighted average exercise price
$5.75 – 8.37	436,945	$7.35
$12.21 – 19.61	461,984	$19.22
$21.85 – 22.20	1,121,822	$22.12
$25.50 – 29.01	511,087	$27.32
$5.75 – 29.01	2,531,838	$20.09

In estimating the fair value and the compensation expense for share options granted in 2007 to 2011 (which will vest and be expensed over four years from the date of grant), the Company uses the Black-Scholes options pricing model. Volatility is calculated using the logarithmic share price returns approach based on historical Company share prices. The fair value of the options on the date of grant and the assumptions used are as follows:

	2011	2010	2009	2008	2007
Fair Value	**$3.49 – $3.61**	$1.03 – $1.17	$1.19	$2.24	$2.56
Risk-free interest rate	**2.4% – 2.7%**	2.8% – 3.1%	2.2%	4.1%	4.0%
Expected dividend yield	**3.0%**	5.9%	4.4%	3.9%	3.8%
Expected share price volatility	**35.4 – 41.1%**	30.1 – 34.5%	24.3%	15.1%	16.3%
Expected time until exercise (years)	**5 – 7**	5 – 7	6	6	6

Subsequent to year-end, 656,233 share options were granted at an exercise price of $8.28 per share.

(b) ESPP

Under the Company's employee share purchase plans, employees may subscribe for Class B non-voting shares of the Company to be paid for through payroll deductions over two-year periods at a purchase price which is the lower of the market price on the entry date or the market price at the end of the payment period. The value of the shares that an employee may subscribe for is restricted to a maximum of 20% of salary at the beginning of the two year period. As at December 31, outstanding employee subscriptions were as follows:

	2011		2010	
Maturing in	**2012**	**2013**	2011	2012
Subscription price at entry date	**$10.74**	**$12.53**	$5.52	$10.74
Number of shares	**163,339**	**148,690**	340,417	181,642

The Company uses the Black-Scholes options pricing model to estimate the fair value of the employee subscriptions under the ESPP. The fair value of the subscriptions on the subscription date and the assumptions used are as follows:

Maturing in	2013	2012	2011	2010
Fair Value	$2.30	$3.13	$0.93	$1.25
Risk-free interest rate	1.5%	1.5%	1.2%	3.0%
Expected dividend yield	4.0%	3.5%	4.4%	3.9%
Expected share price volatility	39.0%	59.6%	37.8%	17.0%
Expected time until exercise (years)	2	2	2	2

(c) RSU plan

Eligible senior executives may be granted RSU awards equivalent in value to Class B non-voting shares of the Company as part of their long-term incentive compensation. RSU's vest after three years and are settled in cash. RSUs are accrued over the three-year vesting period as compensation expense and a related liability.

A summary of changes in the RSU plan is as follows:

	Units
January 1, 2010	473,274
Vested and paid	(96,573)
Granted	250,551
December 31, 2010	**627,252**
Vested and paid	**(113,368)**
Granted	**146,341**
Forfeited	**(2,918)**
December 31, 2011	**657,307**

As at December 31, 2011, 455,005 units have been accrued at a value of $3.8 million of which 262,053 units have been accrued in Accounts payable and accrued liabilities at a value of $2.2 million while 192,952 units have been accrued in Other liabilities at a value of $1.6 million (2010 – 361,960 units accrued at a value of $4.4 million of which 113,368 units have been accrued in Accounts payable and accrued liabilities at a value of $1.4 million while 248,592 units have been accrued in Other liabilities at a value of $3.0 million).

The Company has entered into a derivative instrument in order to lock in the expense for 521,194 RSUs. Changes in the fair value of this instrument are recorded as compensation expense and offset the impact of changes in the value of the RSUs that have been accrued. As the RSUs are accrued over the three-year period until the RSUs vest, there will not be an exact offset each period.

(d) The Company has recognized in 2011 compensation expense totaling $3.4 million (2010 - $2.2 million) for the share options granted in 2008 to 2011, RSUs granted in 2009 to 2011 and the ESPP originating in 2009 to 2011.

(e) DSU plan

Eligible executives may elect to receive certain cash incentive compensation in the form of DSU units. Each unit is equal in value to one Class B non-voting share of the Company. The units are issued on the basis of the closing market price per share of Class B non-voting shares of the Company on the Toronto Stock Exchange on the date of issue. The units also accrue dividend equivalents payable in additional units in an amount equal to dividends paid on Class B non-voting shares of the Company. DSU units mature upon termination of employment, whereupon an executive is entitled to receive the fair market value of the equivalent number of Class B non-voting shares, net of withholdings, in cash.

The Company has also adopted a DSU plan for non-employee directors. Each non-employee director receives an award of DSU units as part of his or her annual Board retainer. In addition, a non-employee director holding less than the minimum shareholding requirement of Class B non-voting shares, Class A voting shares, DSU units, or a combination thereof, receives the cash portion of his or her annual Board retainer in the form of DSU units. Any non-employee director may elect to participate in the DSU plan in respect of part or all of his or her retainer and attendance fees. The terms of the director DSU plan are substantially the same as the executive DSU plan.

As at December 31, 2011, 320,605 units were outstanding at a value of $2.7 million (2010 – 262,868 units at a value of $3.2 million).

The Company has entered into a derivative instrument in order to offset its exposure to 298,600 units. Changes in the fair value of this instrument are recorded as compensation expense and offset the impact of changes in the value of the outstanding deferred share units.

20. ACCUMULATED OTHER COMPREHENSIVE LOSS (NET OF TAX)

	Foreign currency translation adjustment	Cash flow hedges	Available-for-sale securities	Net investment hedge	CTV's cash flow hedges	Total
As at January 1, 2010		($7,626)	($340)		($4,564)	($12,530)
OCI	($6,332)	856	240		4,564	(672)
As at December 31, 2010	**($6,332)[1]**	**($6,770)[2]**	**($100)[1]**			**($13,202)**
OCI	**6,041**	**446**	**(29)**	**($1,542)**		**4,916**
As at December 31, 2011	**($291)[1]**	**($6,324)[2]**	**($129)[1]**	**($1,542)[3]**		**($8,286)**

[1]Net of deferred income tax asset of $nil (2010 – $nil).
[2]Net of deferred income tax asset of $2,070 (2010 – $2,470).
[3]Net of current income tax benefit of $250.

21. ACQUISITIONS AND INVESTMENTS

During the year ended December 31, 2011, the Company completed acquisitions and investments in its Media Segment with a total purchase price of $124.4 million, including $0.6 million for portfolio investments. The purchase price included $91.3 million of cash; $2.1 million of deferred purchase payments; $10.8 million for a call option liability; a $1.1 million estimate of the fair value of contingent consideration and gains on remeasurement for step acquisitions of $19.1 million. The contingent consideration related to two of the Media Segment acquisitions. Both contingent consideration calculations are based on profit levels realized by the acquired businesses up to five years following the acquisition and are payable by the Company between 2013 and 2017.

In addition, the Company also made payments of $9.6 million for deferred purchase payments and $0.8 million of contingent consideration in respect of prior year acquisitions. The deferred purchase payments included $6.9 million in respect of the Book Publishing Segment's prior year acquisition of the remaining 50% of its German publishing business, Cora Verlag from Axel Springer Verlag, its joint venture partner in Germany since 1976. The remaining $2.7 million deferred purchase payments were in the Media Segment for eyeReturn Marketing and Gottarent. The $0.8 million contingent consideration was also paid in the Media Segment.

Total cash used for acquisitions and investments during the year was $101.8 million, as indicated in the chart below.

The Media Segment acquisitions included Autocatch.com (a web-based classified advertising solution for vehicle dealers and sellers) on February 15, 2011; Brant News (a community newspaper publishing and flyer distribution business operating in the Brantford area) on April 15, 2011; exercising the option to purchase an additional 16.67% of Tuango (a Quebec-based daily deal business) on April 18, 2011, bringing the Company's interest to 50%; Starmail Distributors (a distribution business operating in London, Ontario) on June 1, 2011; the remaining 50% of save.ca (an online coupon website providing consumers with savings on leading packaged goods brands) on June 16, 2011; The Kit (a digital beauty magazine) on July 28, 2011; Foodscrooge (an online group buying site focused on heavily discounted food offerings) on September 28, 2011; an additional 40% interest in Free Daily News Group (publishes the Metro newspapers in Toronto, Vancouver, Ottawa, Calgary, Edmonton, London, Winnipeg and Halifax, "Metro") on October 14, 2011 bringing the Company's interest to 90% and Performance Printing Limited (a newspaper publisher and flyer distributor in several Eastern Ontario communities with a commercial printing operation in Smith Falls) on October 17, 2011.

The acquisition of the additional interest in Metro and save.ca were step acquisitions in which the Company obtained control of both entities. The Company remeasured its previously held interest to the acquisition dates' fair values of $58.0 million and $4.7 million for Metro and save.ca respectively, resulting in a gain on remeasurement of $19.1 million which has been recorded as other income on the consolidated statement of income.

As part of the Metro transaction, the Company and Metro International S.A. entered into put and call arrangements with regards to the 10% of Metro that remains owned by Metro International S.A.. The put and call are both exerciseable at the same fixed price starting in October 2014. The Company has recorded a call option liability of $10.8 million as part of the business combination.

The Media Segment acquisitions were accounted for by the purchase method. The amount of goodwill that is deductible for tax purposes is $8.4 million. Goodwill recognized on the acquisitions comprises integration with existing web-based products; market reputation; access to existing network of carriers and existing readership. The Starmail acquisition facilitated the launch of a community newspaper in the London, Ontario region.

These acquisitions contributed $20.6 million of revenue and $2.4 million of operating profit in the Media Segment in 2011. If the acquisitions had occurred on January 1, 2011, the Company's consolidated revenues and operating profit would have been $1,594.6 million and $192.9 million respectively.

The portfolio investments of $0.6 million included $0.5 million in Social Game Universe (a Toronto-based developer and publisher of social games) on April 21, 2011. These investments have been classified as available for sale.

The fair value of the assets acquired and liabilities assumed from the acquisitions completed are as follows:

	Media Segment			Book Publishing	
Year ended December 31, 2011	**Metro**	**Others**	**Total**	**Segment**	**Total**
Assets:					
Property, plant and equipment (note 6)	**$353**	**$8,362**	**$8,715**		**$8,715**
Indefinite-life intangible assets (note 8)		**9,856**	**9,856**		**9,856**
Finite-life intangible assets (note 8)	**20,047**	**8,469**	**28,516**		**28,516**
Goodwill (note 9)	**49,986**	**19,012**	**68,998**		**68,998**
Deferred tax assets	**492**	**350**	**842**		**842**
Non-cash working capital	**7,293**	**3,134**	**10,427**		**10,427**
Liabilities:					
Other liabilities		**(1,352)**	**(1,352)**		**(1,352)**
Deferred tax liabilities		**(2,258)**	**(2,258)**		**(2,258)**
Minority interests	**20**		**20**		**20**
Total purchase price	**78,191**	**45,573**	**123,764**		**123,764**
Gain on remeasurement for step acquisitions	**(19,026)**	**(29)**	**(19,055)**		**(19,055)**
	59,165	**45,544**	**104,709**		**104,709**
Deferred payments (Accounts payable)		**(2,080)**	**(2,080)**		**(2,080)**
Call option liability	**(10,789)**		**(10,789)**		**(10,789)**
Contingent consideration		**(1,087)**	**(1,087)**		**(1,087)**
Cash consideration paid	**48,376**	**42,377**	**90,753**		**90,753**
Deferred payments on prior acquisitions		**2,667**	**2,667**	**$6,950**	**9,617**
Contingent consideration on prior acquisitions		**823**	**823**		**823**
	48,376	**45,867**	**94,243**	**6,950**	**101,193**
Investments		**600**	**600**		**600**
Total cash used in acquisitions and investments	**$48,376**	**$46,467**	**$94,843**	**$6,950**	**$101,793**

In 2010, the Company completed acquisitions with a total purchase price of $22.8 million. The purchase price included $7.9 million of cash; $5.7 million of deferred purchase payments; a $5.5 million estimate of the fair value of contingent consideration and a gain on remeasurement of $3.7 million. In 2010, the Company also made payments of $2.7 million for deferred purchase payments and $0.8 million of contingent consideration in respect of prior year acquisitions. Total cash used in 2010 for acquisitions and investments was $11.4 million.

The total purchase price for Harlequin's acquisition of the remaining 50% of its German publishing business, Cora Verlag from Axel Springer Verlag, its joint venture partner in Germany since 1976 was $11.6 million (including a $3.5 million gain on the remeasurement of the previously held 50% interest to the acquisition date fair value of $5.3 million). $2.4 million was paid in 2010 while the remaining $5.7 million, the discounted value of the deferred purchase price, was paid in 2011. This acquisition was completed on April 1, 2010 and has been accounted for by the purchase method, with the final allocation in the chart below. The amount of goodwill that is deductible for tax purposes is $5.0 million. This acquisition contributed $12.9 million of revenue and $1.0 million of operating profit in the Book Publishing Segment in 2010.

The Media Segment acquisitions included the remaining 86% ownership interest in Travelwire Inc. (a business that provides travel deals through its email newsletter) on September 10, 2010; WagJag (a business that allows local businesses to access new customers featuring one deal per day) on June 4, 2010 and several other smaller businesses. The total purchase price for these acquisitions was $11.0 million, including $5.5 million of cash and a $5.5 million estimate of the fair value of contingent consideration. The contingent consideration related to two of the Media Segment acquisitions. Both contingent consideration calculations are based on revenue levels realized by the acquired businesses in the two years following the acquisition and is payable by the Company in 2011 and 2012.

The Media Segment acquisitions were accounted for by the purchase method, with the final allocation in the chart below. The amount of goodwill that is deductible for tax purposes is $0.9 million. These acquisitions, combined with a significant investment in marketing, contributed $3.6 million of revenue and decreased operating profit by $4.1 million in the Media Segment in 2010.

If all the acquisitions had occurred on January 1, 2010, the Company's consolidated revenues and operating profit would have been $1,490.5 million and $203.9 million respectively.

Year ended December 31, 2010	Media Segment	Book Publishing Segment	Total
Assets:			
Property, plant and equipment (note 6)	$18	$15	$33
Indefinite-life intangible assets (note 8)	1,300	5,542	6,842
Finite-life intangible assets (note 8)	2,493	624	3,117
Goodwill (note 9)	8,101	7,692	15,793
Other assets	(312)		(312)
Liabilities:			
Non-cash working capital	298	(733)	(435)
Other liabilities		(564)	(564)
Deferred tax liabilities	(898)	(1,012)	(1,910)
Total purchase price	11,000	11,564	22,564
Gain on remeasurement for step acquisitions		(3,461)	(3,461)
	11,000	8,103	19,103
Deferred payments:			
Accounts payable		(2,976)	(2,976)
Other liabilities		(2,718)	(2,718)
Contingent consideration	(5,522)		(5,522)
Cash consideration paid	5,478	2,409	7,887
Deferred payments on prior acquisitions	2,667		2,667
Contingent consideration on prior acquisitions	844		844
Total cash used in acquisitions and investments	$8,989	$2,409	$11,398

22. GAIN ON SALE OF ASSETS

During 2010, the Company recognized gains of $4.1 million from the sale of assets. A gain of $2.8 million ($3.0 million cash proceeds) was recorded on the formation of a joint venture to manage and further develop the Total Online Publishing Solutions system. The Company also sold some excess land in Vaughan and realized a gain of $1.3 million from the net cash proceeds of $1.3 million.

In addition, the Company received the outstanding $6.2 million proceeds from the mortgage receivable on the sale of excess land in Vaughan during 2008.

23. INVESTMENT WRITE-DOWN

The Company has recorded the following investment write-down:

	Year ended December 31	
	2011	2010
Write-down of investment in Q-ponz Inc.	**($544)**	
Write-down of investment in Multimedia Nova Corporation		($258)
Write-down of investment in LocalPoint Media		(515)
	($544)	($773)

24. OTHER NON-CASH ITEMS PROVIDED BY (USED IN) OPERATING ACTIVITIES

	Year ended December 31	
	2011	2010
Share-based compensation plans	**($350)**	$3,754
Foreign exchange	**3,477**	(4,805)
Restructuring provisions	**82**	14,293
Gain on remeasurement for step acquisitions	**(19,055)**	(3,461)
Interest accretion	**2,667**	793
Adjustment to contingent consideration	**(630)**	
Other	**(215)**	(2,388)
	($14,024)	$8,186

25. COMMITMENTS AND CONTINGENCIES

The Company has guaranteed sub-lease payments to a third party of approximately U.S. $1 million for each of the next 7 years. In addition, the Company has the following significant contractual obligations:

Nature of the Obligation	Total	2012	2013 - 2014	2015 - 2016	2017+
Office leases	$131,901	$19,341	$36,128	$32,686	$43,746
Services	17,181	5,321	7,919	3,338	603
Acquisitions	21,464	8,915	12,126	167	256
Investment	5,765	5,765			
Equipment leases	2,010	793	953	257	7
Total	$178,321	$40,135	$57,126	$36,448	$44,612

26. RELATED PARTY TRANSACTIONS

The aggregate amounts of the compensation for the Company's key management (including directors) are set out below:

	Year ended December 31	
	2011	2010
Salaries and benefits	**$8,603**	$8,891
Post-employment benefits	**2,247**	3,649
Share based payments	**2,996**	2,021
Other long-term benefits	**986**	1,239
Total	**$14,832**	$15,800

The following summarizes the sales to, purchases from and amounts owed to and by the Company's joint ventures and associates:

	Sales to	Purchases from	Amounts owed by	Amounts owed to
Joint Ventures				
2011	**$3,180**	**$1,152**	**$823**	**$368**
2010	3,593	1,303	790	398
Associates				
2011		**3,461**		**230**
2010	55	3,322		300

Sales to and purchases of goods and services from related parties were made at market prices. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

27. JOINT VENTURES

The Company proportionately consolidates its interest in joint ventures. The significant joint ventures in the Media Segment include Workopolis (50%) and Sing Tao Daily (approximately 50%). Prior to October 14, 2011, Free Daily News Group (publishes the Metro newspapers in Toronto, Vancouver, Ottawa, Calgary, Edmonton, London, Winnipeg and Halifax) was also a joint venture. Harlequin also conducts some of its business overseas with joint venture partners, the most significant of which are in France (50%) and Italy (50%). The Company's proportionate share of revenue from these businesses is $140.4 million (2010 – $125.0 million) and operating profit is $18.4 million (2010 – $19.4 million).

Outlined below is summarized financial information for the Company's proportionate share included in the consolidated statement of financial position:

	December 31, 2011	December 31, 2010	January 1, 2010
Current assets	**$31,228**	$44,211	$38,404
Property, plant and equipment	**6,970**	6,005	8,857
Intangible assets	**28,846**	30,780	26,671
Goodwill	**58,419**	84,184	84,184
Other assets	**195**	178	1,499
Current liabilities	**19,007**	22,690	20,022
Other liabilities	**3,073**	3,860	3,710

28. SEGMENTED INFORMATION

The Company has two reportable segments: Media and Book Publishing.

The Media Segment publishes over 100 newspapers including the Toronto Star, Canada's largest daily newspaper, The Mississauga News, Oshawa This Week and The Hamilton Spectator. It also includes digital properties such as thestar.com, toronto.com, InsuranceHotline.com, Wheels.ca, flyerland.ca, goldbook.ca, Workopolis, Olive Media, eyeReturn Marketing and wagjag.com. The Media Segment derives its revenues from advertising, circulation, distribution, third-party printing and other.

The Book Publishing Segment represents Harlequin, a global publisher of books for women. Harlequin publishes books around the world in a variety of genres and formats, including digital. Harlequin sells books through the retail channel, in stores and online, and directly to the consumer through its direct mail business and from its internet sites. Harlequin derives its revenue from the publishing and distribution of books in both hard copy and digital formats.

The Company also has investments in Black Press, Blue Ant, Canadian Press and Q-ponz, which the Company presents as associated businesses.

Segment profit or loss has been defined as operating profit which corresponds to operating profit as presented in the consolidated statement of income. All other income and expense items are managed on a Company basis and are not provided to the chief operating decision-maker ("CODM") at the operating segment level. Assets and liabilities are also not provided to the CODM at the operating segment level. These items are therefore not allocated to the operating segments.

Year ended December 31, 2011	Media	Book Publishing	Total segments	Corporate	Consolidated
Operating Revenue	$1,089,330	$459,427	$1,548,757		$1,548,757
Salaries and benefits	(398,842)	(100,014)	(498,856)	($12,227)	(511,083)
Other operating costs	(518,818)	(273,320)	(792,138)	(3,287)	(795,425)
Amortization and depreciation	(29,415)	(3,695)	(33,110)	(55)	(33,165)
Restructuring and other charges	(18,860)	(551)	(19,411)		(19,411)
Reportable segment operating profit	$123,395	$81,847	$205,242	($15,569)	$189,673
Interest and financing costs					(16,629)
Adjustment to contingent consideration					630
Foreign exchange					(3,477)
Loss of associated businesses					(2,157)
Other income					19,055
CTV Inc. – gain on sale					74,590
Investment write-down					(544)
Income before taxes					$261,141

Year ended December 31, 2010	Media	Book Publishing	Total segments	Corporate	Consolidated
Operating Revenue	$1,015,696	$468,072	$1,483,768		$1,483,768
Salaries and benefits	(392,949)	(98,206)	(491,155)	($10,574)	(501,729)
Other operating costs	(446,572)	(281,770)	(728,342)	(3,364)	(731,706)
Amortization and depreciation	(27,469)	(3,965)	(31,434)	(58)	(31,492)
Restructuring and other charges	(29,536)	(357)	(29,893)	(2,755)	(32,648)
Reportable segment operating profit	$119,170	$83,774	$202,944	($16,751)	$186,193
Interest and financing costs					(24,135)
Foreign exchange					4,805
Loss of associated businesses					(28,343)
Other income					3,461
Gain on sale of assets					4,088
CTV Inc. – gain on remeasurement					115,533
Investment write-down					(773)
Income before taxes					$260,829

Geographical information

Revenue is allocated based on the country in which the order is received.

The Company operates in the following main geographical areas:

	Revenue Year ended December 31,	
	2011	2010
Canada	**$1,111,538**	$1,024,696
United States	**226,111**	249,084
Other[1]	**211,108**	209,988
Total	**$1,548,757**	$1,483,768

[1] Principally – United Kingdom, Japan, Germany, Australia, Sweden and France.

TRANSITION TO IFRS

In preparing its opening IFRS Consolidated Statement of Financial Position, the Company has adjusted amounts previously reported that were prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables. The transition adjustments did not have a material impact on the Company's cash flows.

During the process of completing the annual 2011 consolidated financial statements, the Company determined that two adjustments were required to be made to the previously disclosed financial information for 2010 prepared in accordance with IFRS 1 and IAS 34:

- In the second quarter of 2010, the Company completed the acquisition of the remaining half of its German publishing business that it had not previously held. This transaction is treated as a step-acquisition under IFRS which required a remeasurement to the acquisition date fair value of the previously held interest. Further details are provided in Note T24.

- In the third quarter of 2010, the Company entered into agreements to sell its interest in CTV. In the previously disclosed financial results for 2010 prepared in accordance with IFRS 1 and IAS 34, the Company had classified the investment as held-for-sale and continued to record it at the carrying value that it had immediately prior to entering into the agreements to sell. The Company has now determined that the investment should have been classified as an AFS financial asset which, upon reclassification, should be adjusted to its fair value through net income. Further details are provided in Note T13.

Transition elections

The Company has applied the following transition exemptions to full retrospective application to IFRS. The Company's transition date is January 1, 2010 (the "Transition Date").

i. Business combinations
IFRS 1 provides the option to apply IFRS 3, *Business Combinations* retrospectively or prospectively from the Transition Date.

The Company has elected not to apply IFRS 3 to acquisitions of subsidiaries or interests in associates or joint ventures that occurred before the Transition Date. As a result of this election, the classification and accounting treatment of business combinations prior to the Transition Date have not been restated.

ii. Employee benefits
IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19, *Employee Benefits* for the recognition of actuarial gains and losses, or recognize all cumulative unamortized actuarial gains or losses which had been deferred under Canadian GAAP in opening retained earnings.

For all of the Company's defined benefit pension and other post-employment benefit plans, the Company elected to recognize all cumulative unamortized actuarial gains or losses that existed at the Transition Date in opening retained earnings.

iii. Deemed cost
IFRS 1 allows an option to elect to measure an item of property, plant and equipment at its fair value at the date of transition.

The Company has elected to measure specific items of property, plant and equipment at their fair values at the Transition Date.

iv. Foreign currency translation adjustments
In accordance with IFRS 1, the Company has elected to reset the cumulative translation gains or losses from its foreign operations that existed at the Transition Date to zero and reversed the previously recognized amounts in opening retained earnings.

v. Borrowing costs
IAS 23, *Borrowing Costs* requires an entity to capitalize the borrowing costs related to all qualifying assets. Under this, the Company may elect to designate any date before January 1, 2009 or the date of the transition (whichever is later) to capitalize borrowing costs.

The Company chose not to early adopt IAS 23 and therefore borrowing costs prior to the Transition Date have not been capitalized.

vi. Share-based payment transactions
IFRS 1 allows first-time adopters to apply IFRS 2, *Share-based Payments* to equity instruments that were granted after November 7, 2002 and that have vested before the Transition Date.

The Company has elected not to apply IFRS 2 to awards that vested prior to the Transition Date.

IFRS mandatory exceptions

i. Estimates
IFRS 1 requires that the Company's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made at that date under Canadian GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

ii. Hedge accounting
Hedge accounting may only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria as set out in IAS 39. Hedging relationships cannot be designated retrospectively.

The Company has updated its hedge documents to incorporate the requirements of IAS 39 at the Transition Date to ensure that the designated hedging relationships that existed under Canadian GAAP continue on transition to IFRS.

Reconciliation of Consolidated Statement of Financial Position on the Transition Date

	Notes	As reported under Canadian GAAP as at December 31, 2009	Adjustments	Reclass	As reported under IFRS as at January 1, 2010
Assets					
Current:					
Cash and cash equivalents		$39,238		($80)	$39,158
Receivables		247,239		3,050	250,289
Inventories		33,953			33,953
Derivative financial instruments[1]		6,067			6,067
Prepaid expenses and other current assets	T5	51,501	($1,226)	(1,362)	48,913
Prepaid and other recoverable income taxes		2,997			2,997
Deferred income tax assets[2]	T4	19,540		(19,540)	
Total current assets		400,535	(1,226)	(17,932)	381,377
Property, plant and equipment	T2	251,817	(74,324)		177,493
Investment in associated businesses	T6	178,828	(8,045)		170,783
Derivative financial instruments[3]		1,471			1,471
Intangible assets	T7,T8	51,619	1,708	767	54,094
Goodwill	T3	581,842	(1,549)	9	580,302
Other assets	T1	138,637	(136,202)	(346)	2,089
Deferred income tax assets[2]	T4	33,693	31,717	19,540	84,950
Total assets		$1,638,442	($187,921)	$2,038	$1,452,559
Liabilities and Equity					
Current:					
Bank overdraft		$2,052			$2,052
Accounts payable and accrued liabilities	T9	218,971	$1,413	($26,036)	194,348
Provisions	T9			27,966	27,966
Income taxes payable		19,158		14	19,172
Total current liabilities		240,181	1,413	1,944	243,538
Long term debt	T5	552,976		(1,736)	551,240
Derivative financial instruments[4]		16,633			16,633
Provisions	T7			2,095	2,095
Other liabilities	T7	17,640	1,479	(1,571)	17,548
Employee benefits[4]	T1	69,135	117,817		186,952
Deferred income tax liabilities[5]	T4	62,897	(54,630)		8,267
Equity:					
Share capital		391,626			391,626
Contributed surplus		11,901	281		12,182
Retained earnings		292,306	(258,604)		33,702
Accumulated other comprehensive loss		(16,853)	4,323		(12,530)
Total equity attributable to equity shareholders		678,980	(254,000)		424,980
Minority interests	T11			1,306	1,306
Total equity		678,980	(254,000)	1,306	426,286
Total liabilities and equity		$1,638,442	($187,921)	$2,038	$1,452,559

[1] Reported in receivables under Canadian GAAP December 31, 2009 consolidated financial statements
[2] Canadian GAAP terminology was future income tax assets
[3] Reported in other assets under Canadian GAAP December 31, 2009 consolidated financial statements
[4] Reported in other liabilities under Canadian GAAP December 31, 2009 consolidated financial statements
[5] Canadian GAAP terminology was future income tax liabilities

Reconciliation of Consolidated Statement of Changes in Equity on the Transition Date

	Notes	Share capital	Contributed surplus	Retained earnings	AOCI	Minority interests	Total equity
Reported under Canadian GAAP as at December 31, 2009		$391,626	$11,901	$292,306	($16,853)		$678,980
IFRS adjustments increase (decrease):							
Employee benefits	T1			(254,019)			(254,019)
Property, plant and equipment	T2			(73,240)			(73,240)
Changes in functional currencies	T3				(2,741)		(2,741)
Foreign currency IFRS 1 adjustment	T3			(7,064)	7,064		
Income taxes	T4			86,053			86,053
Share-based compensation	T10		281	(189)			92
Revenue recognition	T9			(1,147)			(1,147)
Prepaid expenses and other current assets	T5			(1,226)			(1,226)
Restructuring charges	T9			(864)			(864)
Provisions	T9			598			598
Impairments	T8			539			539
Investment in associates	T6			(8,045)			(8,045)
Minority interests	T11					$1,306	1,306
Reported under IFRS as at January 1, 2010		$391,626	$12,182	$33,702	($12,530)	$1,306	$426,286

Reconciliation of AOCI (net of tax) on the Transition Date

	Foreign currency translation adjustment	Cash flow hedges	Available-for-sale securities	Associated businesses' cash flow hedges	Total
AOCI as reported under Canadian GAAP as at December 31, 2009	($4,323)	($7,626)[1]	($340)[2]	($4,564)[2]	($16,853)
Changes in functional currencies	(2,741)				(2,741)
Foreign currency IFRS 1 adjustment	7,064				$7,064
AOCI as reported under IFRS as at January 1, 2010		($7,626)[1]	($340)[2]	($4,564)[2]	($12,530)

[1] Net of deferred income tax benefit of $2,939
[2] Net of deferred income tax benefit of $nil

Notes to the Transition Date reconciliation schedules:

T1. EMPLOYEE BENEFITS

Past service costs

Under Canadian GAAP, the Company expensed past service costs over the estimated average service life of active employees remaining in the plan. Under IFRS, the Company is required to expense the cost of past service benefits awarded to employees under post-employment benefit plans over the periods in which the benefits vest. At the Transition Date, all the past service benefits had vested. Accordingly, the Company recognized an amount of $26.0 million related to unrecognized prior service costs with respect to its pension plans and post-employment benefit plans in opening retained earnings. This change was reflected as a reduction of long-term assets of $18.8 million and an increase in the employee benefit liabilities of $7.2 million.

Actuarial gains and losses

As a result of applying the IFRS 1 exemption for unvested actuarial gains and losses, opening retained earnings have been reduced by $160.4 million to recognize cumulative net actuarial gains and losses accumulated as at the Transition Date. This change was reflected as a reduction of long-term assets of $117.4 million and an increase in the employee benefit liabilities of $43.1 million.

Minimum funding requirement obligations

The Company has recognized a liability of $67.6 million in the pension plans for future minimum funding requirement obligations that exceed the future economic benefit that are estimated to be realizable for that funding.

The total change in the opening retained earnings related to the above adjustments to the employee benefits is $254.0 million.

	Assets	Liabilities
As reported under Canadian GAAP as at December 31, 2009	$136,573	$69,135
Past service costs	(18,836)	7,194
Actuarial gains and losses	(117,366)	43,066
Minimum funding requirements (IFRIC 14)		67,557
As reported under IFRS as at January 1, 2010	$371	$186,952

T2. PROPERTY, PLANT AND EQUIPMENT

On transition to IFRS, the Company elected to measure specific items of property, plant and equipment at fair value as deemed cost. The valuations of the items were conducted by independent qualified valuators at the Transition Date. The effect of restating these items to fair value is a net decrease of $78.3 million to property, plant and equipment, and opening retained earnings. At the Transition Date, property, plant and equipment includes $89.7 million of assets reflected at fair value.

The depreciation policy for a portion of the plant and equipment was the declining balance method under Canadian GAAP. Under IFRS, as a result of more detailed componentization and a corresponding change in useful lives, the straight-line method was adopted. The impact of this change is an increase of $5.0 million to property, plant and equipment and opening retained earnings.

In addition, changes in functional currencies decreased net property, plant and equipment by $1.0 million (see Note T3).

Reconciliation of property, plant and equipment from Canadian GAAP to IFRS on the Transition Date:

	Land	Buildings and leasehold improvements	Machinery and equipment	Total
Cost				
As reported under Canadian GAAP as at December 31, 2009	$7,176	$218,594	$625,406	$851,176
Election of fair market value as deemed cost		(81,554)	(413,995)	(495,549)
Change in the functional currency	(340)	(1,643)	(4,392)	(6,375)
As reported under IFRS as at January 1, 2010	$6,836	$135,397	$207,019	$349,252
Accumulated depreciation				
As reported under Canadian GAAP as at December 31, 2009		$131,948	$467,411	$599,359
Change in depreciation method			(5,012)	(5,012)
Election of fair market value as deemed cost		(87,193)	(330,064)	(417,257)
Change in the functional currency		(1,226)	(4,105)	(5,331)
As reported under IFRS as at January 1, 2010		$43,529	$128,230	$171,759
Net				
As reported under Canadian GAAP as at December 31, 2009	$7,176	$86,646	$157,995	$251,817
As reported under IFRS as at January 1, 2010	$6,836	$91,868	$78,789	$177,493

T3. FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

Change in the functional currency

Under Canadian GAAP, there are various indicators to be considered in determining the appropriate functional currency of a foreign operation and such indicators are similar to those under IFRS. When the assessment of functional currency provides mixed indicators and the functional currency is not obvious, the IFRS standard requires that priority be given to certain primary indicators that may lead to a different functional currency determination under IFRS compared to Canadian GAAP.

As a result of the transition to IFRS, effective January 1, 2010, the Company determined that the U.S. dollar is the functional currency of certain of its foreign subsidiaries. Prior to the Transition Date, these subsidiaries were considered to be integrated foreign operations with the Canadian dollar as their functional currency. On the Transition Date, the change in the functional currency decreased the opening retained earnings by $2.7 million; decreased goodwill by $1.6 million; property, plant and equipment by $1.0 million and intangible assets by $0.1 million.

IFRS 1 exemption

In accordance with IFRS transitional provisions, the Company reset the cumulative translation adjustment account to zero at the transition date to IFRS. AOCI has been increased and retained earnings have been reduced by $7.1 million resulting in no net impact on shareholders' equity.

The gain or loss on a subsequent disposal of any foreign operation will exclude the foreign currency translation differences that arose before the Transition Date but will include subsequent foreign currency translation differences.

T4. DEFERRED TAX ASSETS AND LIABILITIES

	As reported under Canadian GAAP as at December 31, 2009	Adjustments[1]	As reported under IFRS as at January 1, 2010
Provision for book returns and bad debts	$13,860		$13,860
Property, plant and equipment	(25,206)	$19,172	(6,034)
Intangible assets	(7,636)	294	(7,342)
Financial instruments	2,939		2,939
Provision for employee benefit obligations	(16,039)	66,135	50,096
Share-based payment transactions	1,220	(23)	1,197
Tax loss carryforwards	25,307		25,307
Other	(4,109)	769	(3,340)
Total	($9,664)	$86,347	$76,683
Presented as:			
Current deferred tax assets[2]	$19,540	($19,540)	
Non-current deferred tax assets	33,693	51,257	$84,950
Non-current deferred tax liabilities	(62,897)	54,630	(8,267)
Total	($9,664)	$86,347 [3]	$76,683

[1]The tax adjustments are the tax impact of the changes in the related assets and liabilities
[2]Under IFRS, deferred taxes are either reported as non-current deferred tax assets or non-current deferred tax liabilities
[3]$0.3 million of the adjustments were not recorded through retained earnings

T5. PREPAID AND OTHER CURRENT ASSETS

On the Transition Date, assets that no longer met the definition of an asset under IFRS were derecognized. Accordingly, the Company has identified $1.2 million related to prepaid commissions that no longer met the definition of an asset under IFRS. At the Transition Date, the Company has decreased prepaid expenses by $1.2 million.

On the Transition Date, $1.4 million of prepaid long-term debt transaction costs were reclassified from prepaid and other current assets to long-term debt.

T6. INVESTMENT IN ASSOCIATES

With respect to the Company's investment in CTV, at the Transition Date, the Company recorded adjustments which reduced retained earnings and Investments in associated businesses by $8.0 million. The primary adjustment related to employee benefits for $10.8 million. These adjustments are similar in nature to those recorded by the Company as noted above in Note T1. The remaining favourable adjustment of $2.8 million included a number of items, the most significant of which was a $2.4 million reduction in impairment provisions for intangible assets as certain businesses had improved results and outlook.

T7. BUSINESS COMBINATIONS AND ASSET ACQUISITIONS

In a previous asset acquisition, a contingent payment was not recognized under Canadian GAAP since it was generally recognized as part of the cost of the acquisition when the contingency was resolved and the consideration was paid or became payable. Under IFRS, a contingent liability relating to a 2009 acquisition by the Company has been recorded in the amount of $2.1 million. The impact of recognizing the contingent consideration was an increase in other liabilities and in amortizable intangible assets of $2.1 million.

T8. IMPAIRMENT

On the Transition Date, the Company completed its required impairment testing of goodwill and non-amortizable intangible assets. There was no impairment loss required to be recorded on the Transition Date. The Company also assessed for any indicators that previous impairment losses had decreased. As certain businesses had improved results and outlook, $0.5 million of previously recorded impairment losses on non-amortizable intangible assets were reversed.

T9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND PROVISIONS

Revenue recognition
On the Transition Date, the Company recorded deferred revenue for the fair value of the Book Publishing customer loyalty points program. The net impact of the change resulted in an increase to deferred revenue included in accounts payable and accrued liabilities of $1.1 million.

Restructuring provisions
During the year ended December 31, 2009, the Company announced restructuring plans related to staff reductions in the Media Segment. These voluntary termination plans were communicated to the affected employees and this offer was outstanding as at December 31, 2009. Under Canadian GAAP, this restructuring charge was not recorded for the year ended December 31, 2009 as the termination offer was outstanding. Under IFRS, the Company was demonstrably committed to the plan and there was not a realistic possibility of withdrawal therefore requiring recognition. Accordingly, the Company estimated the number of employees expected to accept the offer and recorded a restructuring charge of $0.9 million as at the Transition Date.

Provisions and contingent liabilities
On transition, a review of the Company's contingent liabilities including legal and other matters was conducted. As a result of the review, the recorded obligation has been decreased by $0.6 million.

Under IFRS, provisions are reported separately from accounts payable and accrued liabilities. On the Transition Date, total current provisions of $28.0 million were reclassified.

T10. SHARE-BASED COMPENSATION

On the Transition Date, the Company moved from straight-line to graded vesting as well as to using an estimate of forfeiture for the recognition of share-based compensation expense. The graded vesting requires a greater portion of expense to be recorded in the initial vesting periods compared to distributing the expense equally over all vesting periods under the straight-line method. This change in the accounting policy reduced opening retained earnings on Transition Date by $0.2 million, decreased other liabilities by $0.1 million and increased contributed surplus by $0.3 million.

T11. MINORITY INTERESTS

The Company began to present the minority interest in Olive Media as part of the transition to IFRS. As a result of this presentation change on the Transition Date, current assets have increased by $3.0 million, current liabilities have increased by $1.9 million, deferred tax liabilities have decreased by $0.2 million and shareholders' equity has increased by $1.3 million.

Reconciliation of the Consolidated Statement of Financial Position as at December 31, 2010

	Notes	As reported under Canadian GAAP as at December 31, 2010	Adjustments	Reclass	As reported under IFRS as at December 31, 2010
Assets					
Current:					
Cash and cash equivalents		$42,899		$92	$42,991
Receivables		262,037		4,399	266,436
Inventories		34,294			34,294
Derivative financial instruments[1]		3,354			3,354
Prepaid expenses and other current assets		49,982	($580)	37	49,439
Prepaid and other recoverable income taxes		3,013			3,013
Deferred income taxes assets[2]	T16	20,090		(20,090)	
Total current assets		415,669	(580)	(15,562)	399,527
Property, plant and equipment (net)	T12	231,609	(60,245)	179	171,543
Investment in associated businesses		1,816	385		2,201
Intangible assets	T14	58,900	4,827	566	64,293
Goodwill	T15	590,959	4,931	9	595,899
Other assets	T17	134,709	(133,450)	(141)	1,118
Deferred income tax assets[2]	T16	26,689	38,025	20,090	84,804
Investment in CTV Inc.	T13	112,848	104,152		217,000
Total assets		$1,573,199	($41,955)	$5,141	$1,536,385
Liabilities and Equity					
Current:					
Bank overdraft		$6,958			$6,958
Accounts payable and accrued liabilities		229,907	$739	($18,353)	212,293
Derivative financial instruments[3]		4,947			4,947
Provisions	T9			21,170	21,170
Income taxes payable		33,233		6	33,239
Total current liabilities		275,045	739	2,823	278,607
Long term debt		404,727		(141)	404,586
Derivative financial instruments[4]		7,647			7,647
Provisions	T18			20,923	20,923
Other liabilities	T18	36,577	5,979	(20,589)	21,967
Employee benefits[4]	T17	72,840	134,928		207,768
Deferred income tax liabilities[5]	T16	55,404	(45,077)		10,327
Equity:					
Share capital		392,816			392,816
Contributed surplus		14,462	(1,227)		13,235
Retained earnings		323,953	(134,367)		189,586
Accumulated other comprehensive loss		(10,272)	(2,930)		(13,202)
Total equity attributable to equity shareholders		720,959	(138,524)		582,435
Minority interests	T19			2,125	2,125
Total equity		720,959	(138,524)	2,125	584,560
Total liabilities and equity		$1,573,199	($41,955)	$5,141	$1,536,385

[1] Reported under receivables under Canadian GAAP December 31, 2010 consolidated financial statements
[2] Canadian GAAP terminology was future income tax assets
[3] Reported under accounts payable and accrued liabilities under Canadian GAAP December 31, 2010 consolidated financial statements
[4] Reported in other liabilities under Canadian GAAP December 31, 2010 consolidated financial statements
[5] Canadian GAAP terminology was future income tax liabilities

Reconciliation of Consolidated Statement of Income for the year ended December 31, 2010

	Notes	As reported under Canadian GAAP for the year ended December 31, 2010[1]	Adjustments	As reported under IFRS for the year ended December 31, 2010
Operating revenue	T19	$1,479,588	$4,180	$1,483,768
Salaries and benefits	T20	(514,632)	12,903	(501,729)
Other operating costs		(731,378)	(328)	(731,706)
Amortization and depreciation	T21	(46,246)	14,754	(31,492)
Restructuring and other charges	T22	(33,455)	807	(32,648)
Operating profit		153,877	32,316	186,193
Interest and finance charges		(23,766)	(369)	(24,135)
Foreign exchange	T23	(1,942)	6,747	4,805
Loss of associated businesses		(29,478)	1,135	(28,343)
Other income	T24		3,461	3,461
Gain on sale of assets		4,088		4,088
CTV Inc. – gain on remeasurement	T13		115,533	115,533
Investment write-down		(773)		(773)
Income before taxes		102,006	158,823	260,829
Income and other taxes		(41,100)	(9,000)	(50,100)
Net income		$60,906	$149,823	$210,729
Attributable to:				
Equity shareholders		$60,906		$209,910
Minority interests				$819
Net Income attributable to equity shareholders per Class A (voting) and Class B share (non-voting):				
Basic		$0.77		$2.65
Diluted		$0.76		$2.64

[1]Reclassified to conform to the presentation of the consolidated statement of income under IFRS

Reconciliation of Consolidated Statement of Comprehensive Income for the year ended December 31, 2010

	Notes	As reported under Canadian GAAP for the year ended December 31, 2010[1]	Adjustments	As reported under IFRS for the year ended December 31, 2010
Net income		$60,906	$149,823	$210,729
Other comprehensive income (loss), net of tax:				
Unrealized foreign currency translation adjustment (no income tax effect)	T23	921	(7,253)	(6,332)
Net movement on available-for-sale financial assets (no income tax effect)		240		240
Net movement on cash flow hedges		1,325		1,325
Income tax effect		(469)		(469)
Net movement on cash flow hedges for associated businesses (no income tax effect)		2,042		2,042
Transfer of unrealized loss on cash flow hedges for associated business to the investment carrying value upon the loss of significant influence (no income tax effect)		2,522		2,522
Actuarial losses on employee benefits	T25		(27,796)	(27,796)
Income tax effect			7,115	7,115
Actuarial losses on employee benefits of associated businesses (no income tax effect)	T13		(4,086)	(4,086)
Other comprehensive income (loss)		6,581	(32,020)	(25,439)
Comprehensive income		$67,487	$117,803	$185,290
Attributable to:				
Equity shareholders		$67,487		$184,471
Minority interests				$819

[1]Reclassified to conform to the presentation of the consolidated statement of comprehensive income under IFRS

Reconciliation of AOCI (net of tax) on December 31, 2010

	Foreign currency translation adjustment	Cash flow hedges	Available-for- sale securities	Total
AOCI as reported under Canadian GAAP as at December 31, 2010	($3,402)[1]	($6,770)[2]	($100)[1]	($10,272)
Changes in functional currencies	(9,994)			(9,994)
Foreign currency IFRS 1 adjustment	7,064			7,064
AOCI as reported under IFRS as at December 31, 2010	($6,332)[1]	($6,770)[2]	($100)[1]	($13,202)

[1] Net of deferred income tax benefit of $nil
[2] Net of deferred income tax benefit of $2,470

Reconciliation of Consolidated Statement of Changes in Equity as at December 31, 2010

	Notes	Share capital	Contributed surplus	Retained earnings	AOCI	Minority interests	Total equity
Reported under Canadian GAAP as at December 31, 2010		$392,816	$14,462	$323,953	($10,272)		$720,959
IFRS adjustments increase (decrease):							
Employee benefits	T1, T17			(240,884)			(240,884)
Property, plant and equipment	T12, T21			(58,709)			(58,709)
Changes in functional currencies	T23			6,873	(9,994)		(3,121)
Foreign currency IFRS 1 adjustment	T3			(7,064)	7,064		
Income taxes	T16			83,979			83,979
Share-based compensation			(1,227)	1,544			317
Revenue recognition				(1,229)			(1,229)
Prepaid expenses and other current assets				(580)			(580)
Provisions				953			953
Impairments				939			939
Investment in associates	T13			104,537			104,537
Actuarial loss	T17			(27,796)			(27,796)
Business combinations				(591)			(591)
Other income	T24			3,661			3,661
Minority interests	T19					$2,125	2,125
Reported under IFRS as at December 31, 2010		$392,816	$13,235	$189,586	($13,202)	$2,125	$584,560

Notes to the December 31, 2010 reconciliation schedules:

T12. PROPERTY, PLANT AND EQUIPMENT

The net value of property, plant and equipment has decreased by $60.2 million at December 31, 2010 primarily as a result of the transition adjustment of $74.3 million (Note T2), and the related lower depreciation during 2010.

T13. INVESTMENT IN CTV INC.

The increase in the carrying value of $104.2 million included the recognition of a gain of $115.5 million resulting from remeasurement to the estimated fair value of the investment which arose from the pending sale of the investment (as described in Note 7 – Investment in Associated Businesses). The gain is reflected as an adjustment to net income and was not subject to tax. Under Canadian GAAP the AFS investment was carried at cost as the investment does not have a quoted market price in an active market whereas IFRS requires an estimate of the fair value when the investment became an AFS financial asset. In addition, the carrying value was decreased by $11.4 million due to the transition adjustment of $8.0 million (Note T6) and also included the recognition in 2010 of actuarial losses related to employee benefit plans of $4.5 million and a decrease in losses recognized of $1.1 million while CTV Inc. was an associated business.

T14. INTANGIBLE ASSETS

The adjustment to Intangible assets was an increase of $4.8 million. This included a $2.8 million increase in non-amortizable intangible assets related to the remeasurement of the previously held 50% joint venture interest in the Company's German publishing business, a $0.9 million increase due to reversals of previously recorded impairments ($0.5 million non-amortizable assets, $0.4 million amortizable assets) and a $1.2 million increase related to the recognition of contingent consideration ($0.5 million non-amortizable assets, $0.7 million amortizable assets).

T15. GOODWILL

Goodwill increased by $4.9 million at December 31, 2010 under IFRS due to the $5.0 million increase from the purchase price allocation of contingent consideration that was recorded under IFRS in 2010, an increase of $1.6 million related to the remeasurement of the previously held 50% joint venture interest in the Company's German publishing business, partially offset by the decrease from the transition adjustment of a $1.6 million related to functional currency changes (Note T3).

T16. DEFERRED TAX ASSETS AND LIABILITIES

	As reported under Canadian GAAP as at December 31, 2010	Adjustments[1]	As reported under IFRS as at December 31, 2010
Provision for book returns and bad debts	$12,456		$12,456
Property, plant and equipment	(22,961)	$14,907	(8,054)
Intangible assets	(8,258)	(840)	(9,098)
Financial instruments	2,470		2,470
Provision for employee benefit obligations	(13,876)	68,711	54,835
Share-based payment transactions	2,017	(79)	1,938
Tax loss carryforwards	22,286		22,286
Other	(2,759)	403	(2,356)
Total	($8,625)	$83,102	$74,477
Presented as:			
Current deferred tax assets[2]	$20,090	($20,090)	
Non-current deferred tax assets	26,689	58,115	$84,804
Non-current deferred tax liabilities	(55,404)	45,077	(10,327)
Total	($8,625)	$83,102 [3]	$74,477

[1]The tax adjustments are the tax impact of the changes in the related assets and liabilities
[2]Under IFRS, deferred taxes are either reported as non-current deferred tax assets or non-current deferred tax liabilities
[3]This amount plus $0.2 million was recorded through retained earnings

T17. EMPLOYEE BENEFITS

The change in employee benefits was due to transition adjustments (Note T1) and the related reduction in pension expense in 2010. Actuarial losses recognized during 2010 of $27.8 million included $55.2 million of actuarial losses offset by a $27.4 million reduction in the minimum funding requirement obligation.

T18. OTHER LIABILITIES AND PROVISIONS

Other liabilities increased by $6.0 million as a result of recording the contingent purchase price payments under IFRS for acquisitions. The amount has been reclassified to Provisions to conform to reporting changes described in Note T9.

T19. MINORITY INTERESTS

The Company began to present the minority interest in Olive Media as part of the transition to IFRS. As a result of this presentation change on December 31, 2010, current assets have increased by $4.5 million, long-term assets have increased by $0.8 million, current liabilities have increased by $2.8 million, long-term liabilities have increased by $0.3 million, and shareholders' equity has increased by $2.2 million. For the full year, the change in presentation increased revenue by $4.3 million, operating profit by $0.9 million and net income by $0.8 million.

T20. SALARIES AND BENEFITS

Salaries and benefits for the year ended December 31, 2010 were $12.9 million lower under IFRS than they were under Canadian GAAP. This decrease included $13.1 million from the changes in employee benefits (Note T1) and $1.7 million from the changes in share-based compensation (Note T10), partially offset by higher expenses from the presentation change for minority interests (Note T19).

T21. AMORTIZATION AND DEPRECIATION

Amortization and depreciation expense for the year ended December 31, 2010 was $14.8 million lower under IFRS than it was under Canadian GAAP. This is primarily the result of the changes made to the property, plant and equipment balances on the Transition date (Note T2).

T22. RESTRUCTURING AND OTHER CHARGES

Restructuring and other charges for the year ended December 31, 2010 were $0.8 million lower under IFRS than they were under Canadian GAAP. This included a $0.9 million decrease from the timing of restructuring provisions (Note T9), a $0.4 million decrease from the reversal of an impairment loss related to intangible assets, a $0.4 million increase on the expensing of acquisition costs related to the Company's acquisition of the remaining 50% of its German publishing business and a $0.1 million increase in provisions.

T23. FOREIGN EXCHANGE

As the result of the change in functional currencies (Note T3), the foreign exchange on the translation of a significant portion of the Company's U.S. dollar denominated assets is recorded through OCI under IFRS rather than through net income under Canadian GAAP.

T24. OTHER INCOME

As a result of the Company's April 2010 purchase of the remaining 50% interest in the German publishing business that it did not own, a gain on remeasurement of $3.5 million (Other income) was recorded for the previously held 50% interest in the joint venture and deferred income tax recovery of $0.2 million. Under IFRS, when control is obtained over previously held equity interests, this interest should be revalued and any resulting gain or loss is recognized in profit or loss. Canadian GAAP treated each stage of an acquisition separately and there was no revaluation of the previously held interest.

T25. EMPLOYEE BENEFITS – ACTUARIAL GAINS AND LOSSES

The Company has chosen to recognize actuarial gains and losses related to its employee benefit plans through OCI. The amount recognized each period is not retained in AOCI but goes directly to retained earnings.

NOTES

Board of Directors

John A. Honderich

Chair, Torstar Corporation
Former Publisher, Toronto Star
Director since 2004

Campbell R. Harvey

Professor of International Business, Duke University

Director since 1992

Martin E. Thall

President and Chief Executive Officer
Thall Group of Companies

Director since 2002

Donald Babick

Past President, Southam Publications
Corporate Director

Director since 2004

Elaine B. Berger

Corporate Director

Director since 2006

Daniel A. Jauernig

President and Chief Executive Officer
Classified Ventures, LLC

Director since 2009

Joan T. Dea

Managing Director
Beckwith Investments

Director since 2009

Alnasir Samji

President, Alderidge Consulting

Director since 2009

David P. Holland

President and Chief Executive Officer
Torstar Corporation

Director since 2009

Paul R. Weiss

Corporate Director

Director since 2009

Phyllis Yaffe

Corporate Director

Director since 2009

Linda Hughes

Chancellor, University of Alberta
Former Publisher, Edmonton Journal

Director since 2010

B. Neil Clark

Corporate Director

Director since 2011

CORPORATE OFFICE

One Yonge Street
Toronto, Ontario
Canada
M5E 1E6
Telephone: (416) 869-4010
Fax: (416) 869-4183
e-mail: torstar@torstar.ca
Website: www.torstar.com

TRANSFER AGENT & REGISTRAR

CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.
P.O. Box 700
Postal Station B
Montreal, QC
H3B 3K3
AnswerLine (416) 682-3680 or
1-800-387-0825
(toll-free in North America)

www.canstockta.com
inquiries@canstockta.com

Torstar Class B non-voting shares are traded on the Toronto Stock Exchange under the symbol TS.B

OFFICERS OF TORSTAR

JOHN A. HONDERICH
Chair

DAVID P. HOLLAND
President and Chief
Executive Officer

LORENZO DEMARCHI
Executive Vice-President
and Chief Financial Officer

MARIE E. BEYETTE
Senior Vice-President,
General Counsel and
Corporate Secretary

PATRICIA HEWITT
Senior Vice-President
Human Resources

GAIL MARTIN
Senior Vice-President Finance

D. TODD SMITH
Treasurer

2011